ALUMINUM INDUSTRY

HEARINGS

BEFORE

SUBCOMMITTEE NO. 3

OF THE

SELECT COMMITTEE ON SMALL BUSINESS

HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH CONGRESS

FIRST SESSION

PURSUANT TO

H. Res. 114

A RESOLUTION CREATING A SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE PROBLEMS OF SMALL BUSINESS

MAY 19, 1955, THROUGH DECEMBER 1955

PART II

Additional Source Materials Concerning Shortages and Related Matters

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ALUMINUM INDUSTRY

Section I. Miscellaneous information supplied to Subcommittee No. 3 by three primary aluminum producers [1]

(1) INFORMATION SUPPLIED BY THE ALUMINUM COMPANY OF AMERICA

Answers to questions submitted in a letter of July 15, 1955, from Hon. Sidney R. Yates, chairman, Subcommittee No. 3 of the Select Committee on Small Business, to Mr. D. Wilmot, Aluminum Co.npany of America, with respect to contracts between General Services Administration and the Aluminum Company of America providing for tenders of primary metal to nonintegrated users:

Question 1. From the first quarter of the year applicable under the contracts, by quarters, until June 30, 1955:

(*a*) Production from capacity subject to the contract provision.

(*b*) The amount of metal computed by Alcoa as equivalent to the two-thirds to be available for Government and nonintegrated users combined, after any prior allocations.

(*c*) The amount of metal assigned to Government call.

(*d*) The amount of metal computed by Alcoa as required to be offered to nonintegrated users.

Answers to question 1 (in millions of pounds):

Year	Quarter	(*a*)	(*b*)	(*c*)	(*d*)	Year	Quarter	(*a*)	(*b*)	(*c*)	(*d*)
1952	1	1	(1)	(1)	(1)	1954	1	99	56	29	27
	2	9	(1)	(1)	(1)		2	110	64	61	3
	3	25	(1)	(1)	(1)		3	114	69	76	(3)
	4	35	(1)	(1)	(1)		4	118	70	80	(3)
1953	1	64	(1)	(1)	(1)	1955	1	118	[4] 141	[4] 91	[4] 50
	2	82	(1)	(1)	(1)		2	121			
	3	90	44	------	44						
	4	97	49	18	31						

Prior to July 1, 1953, distribution was controlled by the Government under CMP regulations, which superseded the provisions of the contracts with respect to sales to nonintegrated users.

[2] Minus 7.

[3] Minus 10.

[4] Alcoa's computations for the 1st 2 quarters of 1955 have been combined as the result of the issuance of a Government call applicable to the entire period.

Question 2. From July 1, 1955, by quarters, until the first quarter is reached 5 years from the effective dates of the contracts when, for all capacity affected, the amount of metal to be offered to nonintegrated users becomes constant at a level of 25 percent of contract capacity:

(*a*) Capacity subject to contract provision.

(*b*) Assuming no prior allocations from such capacity, the amount equal to two-thirds of capacity to be available for Government call and nonintegrated users combined.

(*c*) The amount resulting from the changeover in the formula in each contract to the point where the 25 percent amount applies to each contract to be offered to nonintegrated users.

[1] This material consists of part of the replies of the companies to questions sent by Subcommittee No. 3; additional portions of the replies were used and appear in various forms in the report prepared by the staff of the subcommittee.

Answers to question 2 (in millions of pounds):[1]

Year	Quarter	(a)	(b)	(c)[2]	Year	Quarter	(a)	(b)	(c)[2]
1955	3	108.75	72.50	.....	1957	3	108.75	50.00	8.44
	4	108.75	72.50	.....		4	108.75	30.00	15.94
1956	1	108.75	72.50	.....	1958	1	108.75	30.00	15.94
	2	108.75	72.50	.....		2	108.75	30.00	15.94
	3	108.75	72.50	.....		3	108.75	30.00	15.94
	4	108.75	72.50	.....		4	108.75	18.95	20.08
1957	1	108.75	72.50	.....	1950	1	108.75	.....	27.19
	2	108.75	72.50	.....					

[1] Answers to question 2 are based on operations at capacity, and on contract tonnages rather than on contract periods.
[2] The obligation shown under column (c) will continue on an annual basis with respect to each contract for a period of 15 years.

Question 4. Prices:

(b) Please state for the period January 1, 1949, to June 30, 1955, the base prices for the following items, and for each change in price, the date of change, for—

(i) Scrap purchased by Alcoa—the most common grades of new scrap, indicating minimum quantity, and whether freight to Alcoa mill was extra or included.

Answer. Alcoa's base buying prices per pound, all applicable to minimum truckload or carload shipments, except those dated June 29, 1951, which were applicable to quantities of 20,000 to 39,000 pounds, are shown below. Freight to Alcoa mill was extra and was payable by Alcoa:

Price change date	Grade of scrap				
	All wrought alloys	Low copper alloys	High copper alloys	7075 alloy	1100 alloy
Oct. 15, 1948	$0.1375	.....	.....	.....	.....
Apr. 11, 1949	.1325	.....	.....	.....	.....
Apr. 20, 1949	.1275	.....	.....	.....	.....
May 2, 1949	.....	$0.1175	$0.1125	.....	.....
June 20, 1949	.....	.1075	.1025	.....	.....
Oct. 19, 1949	.....	.1125	.1075	.....	.....
May 17, 1950	.....	.1200	.1150	$0.1000	.....
July 10, 1950	.....	.1250	.1200	.0700	.....
Aug. 14, 1950	.1325	.....	.....	.0900	.....
Sept. 26, 1950	.1475	.....	.....	.1050	.....
Oct. 17, 1950	.....	.....	.....	.1375	.....
Feb. 13, 1953	.1450	.....	.....	.1350	.....
Mar. 9, 1953	.1550	.....	.....	.1450	.....
July 30, 1953	.1650	.....	.....	.1550	.....
Sept. 9, 1953	.....	.....	.....	.1500	.....
Sept. 24, 1953	.....	.....	.....	.1400	.....
Oct. 5, 1953	.1600	.....	.....	.1350	.....
Oct. 12, 1953	.....	.....	.....	.1300	.....
Dec. 14, 1953	.....	.1600	.1550	.....	.....
Dec. 21, 1953	.....	.1525	.1475	.1250	.....
Jan. 4, 1954	.....	.1500	.1450	.1225	.....
Feb. 8, 1954	.....	.1450	.1400	.1150	$0.1500
June 1, 1954	.....	.1550	.1450	.1200	.....
Nov. 8, 1954	.....	.1600	.1550	.1300	.....
Jan. 17, 1955	.....	.1700	.1650	.1400	.....

Question 4. Prices:

(b) Please state for the period January 1, 1949, to June 30, 1955, the base prices for the following items, and for each change in price, the date of change, for—

(ii) Tolling charges by Alcoa for converting—

Scrap into the principal conversion products;

Primary metal into the principal conversion products;

Secondary metal into the principal conversion products.

Answer. Shown below are tolling charges made by Alcoa for converting typical classes of scrap into typical specifications of the principal conversion products:

Typical specification	Extrusion billet, 6063 solid, standard diameters	Mill-finish coiled sheet		Foil stock, 1145–H18, 0.026" by 12"–48", coiled
		3003, 0.064" by 12"–24"	5052, 0.040" by 12"–24"	
Type of scrap used	Extrusion scrap, butt ends	Sheet scrap, baled		Sheet scrap, briquetted
	Tolling charges per pound			
Price-change date:				
Jan. 1, 1949 [1]	[2]	$0.127	$0.173	$0.086
Aug. 22, 1950	$0.038			
Sept. 25, 1950	.039			
Sept. 29, 1950		.138	.185	.097
Aug. 4, 1952		.143	.192	.100
Jan. 23, 1953	.043	.150	.201	.106
July 15, 1953	.046			
July 20, 1953		.154	.206	.109
Aug. 5, 1954	.051			
Aug. 6, 1954		.158	.211	.112

[1] Price in effect on Jan. 1, 1949.
[2] Prior to Aug. 22, 1950, tolling charges under this category were determined on the basis of individual transactions.

Shown below are tolling charges made by Alcoa for converting primary metal into typical specifications of the principal conversion products:

Typical specification	Extrusion billet, 6063 solid, standard diameters	Mill-finish coiled sheet		Foil stock, 1145–H18, 0.026" by 12"–48", coiled
		3003, 0.064" by 12"–24"	5052, 0.040" by 12"–24"	
Price-change date:				
Jan. 1, 1949 [1]	$0.028	$0.102	$0.148	$0.066
Sept. 25, 1950	.029			
Sept. 29, 1950		.113	.160	.077
Aug. 4, 1952		.118	.167	.080
Jan. 23, 1953	.033	.125	.176	.086
July 15, 1953	.036			
July 20, 1953		.129	.181	.089
Aug. 5, 1954	.040			
Aug. 6, 1954		.133	.186	.092

[1] Price in effect on Jan. 1, 1949.

Shown below are tolling charges made by Alcoa for converting secondary metal into typical specifications of the principal conversion products:

Typical specification	Extrusion billet, 6063 solid, standard diameters	Mill-finish coiled sheet		Foil stock, 1145–H18, 0.026" by 12"–48", coiled
		3003, 0.064" by 12"–24"	5052, 0.040" by 12"–24"	
Price-change date:				
Jan. 1, 1949 [1]	[2]			
Aug. 22, 1950	$0.031	$0.105	$0.151	$0.069
Sept. 25, 1950	.032			
Sept. 29, 1950		.116	.163	.080
Aug. 4, 1952		.121	.170	.083
Jan. 23, 1953	.036	.128	.179	.089
July 15, 1953	.039			
July 20, 1953		.132	.184	.092
Aug. 5, 1954	.044			
Aug. 6, 1954		.137	.190	.096

[1] Price in effect on Jan. 1, 1949.
[2] Prior to Aug. 22, 1950, tolling charges under this category were determined on the basis of individual transactions.

Question 5. Markets: Please submit the various estimates of United States aluminum demand given by Alcoa to the Office of Defense Mobilization and other Federal agencies since June 30, 1953.

Answer. Alcoa informally submitted estimates of civilian demand (estimated shipments) to ODM in February 1954, and to BDSA in February 1955. The estimates were as follows:

[In millions of pounds]

	Estimate of—			Estimate of	
	February 1954	February 1955		February 1954	February 1955
1953	2,500		1957	3,200	3,200
1954	2,300		1958	3,400	3,500
1955	2,600	[1] 2,965	1959		3,700
1956	2,900	3,100	1960		4,000

[1] February 1955:

		Millions			Millions
1st quarter	pounds	735	3d quarter	pounds	710
2d quarter	do	760	4th quarter	do	760

Question 2 (revised table 2). Revise and extend table 2 to show by years, beginning with 1946, and by months, January through June 1955, the distribution of the total supply of Alcoa, broken down as follows, in millions of pounds and percentages:

(*a*) All metal put by Alcoa through at least one processing stage in semi-fabricating and fabricating plants, or added to inventories (excluding metal sold by Alcoa and then tolled or converted for customers).

(*b*) Sold by Alcoa as primary metal in pig, ingot or billet form to domestic non-integrated users (excluding metal sold and then tolled or converted for customers). (See note below.)

(*c*) Sold by Alcoa in some form beyond the pig, ingot, or billet stage and then tolled or converted for domestic customers.

(*d*) Sold by Alcoa as primary metal in pig, ingot, or billet form and then tolled or converted for domestic customers.

(*e*) Sold as primary metal to United States Government—

(i) Stockpile under GSA contracts, per request by GSA;

(ii) Pursuant to Alcoa's request to take aluminum under GSA contracts;

(iii) Other purposes, if any.

(*f*) Otherwise distributed (specify each class of distribution and give corresponding figures).

(*g*) Total supply distributed (should agree with total of revised table 1.)

(*h*) Division of total supply of column (*g*) into—

(i) Exports of primary pig, ingot, and billet;

(ii) Exports of secondary or recoverable content of scrap;

(iii) Exports of other products;

(iv) All domestic disposal of metal.

NOTE.—Figures presumably similar or identical to those belonging in column (*b*) above were given to the House Judiciary Committee in testimony of I. W. Wilson, February 2, 1951, pages 628 and 649, as follows:

	Pounds		Pounds
1946	205,580,000	1949	132,321,000
1947	172,365,000	1950	168,144,000
1948	192,741,000		

Also, see Alcoa's answer to Department of Justice interrogatory No. 1, table III, as amended to March 2, 1954, page 2, for 1949 to 1953. If any figures supplied for revised table 2, column (*b*) differ from any of the figures thus supplied elsewhere, please explain discrepancies.

Answer. Revised table 2:

TABLE 2.—*Distribution of total supply by years, 1946 through 1954, and by months since January 1955*

[In millions of pounds and percentages]

	(a) Processed in fabricating plants or added to inventories [1]		(b) Sold as primary metal in pig or ingot form to nonintegrated users [1]		(c) and (d) Toll conversions [1]	
	Weight	Percent	Weight	Percent	Weight	Percent
1946	590	74	171	21		
1947	782	81	181	19		
1948	726	77	201	22		
1949	626	80	150	19		
1950	872	82	183	17		
1951	[2] 771	75	147	15		
1952	[2] 945	86	139	13		
1953	[2] 1,253	81	153	10		
1954	[2] 922	58	145	9		
1955—January	90	68	14	10		
February	84	71	15	13		
March	96	72	18	13		
April	105	78	22	16		
May	93	66	28	20		
June	107	72	27	18		

	(e) Sold as primary metal to U. S. Government					
	(i) Stockpiled under GSA contracts per request by GSA		(ii) Pursuant to Alcoa's request to take aluminum under GSA contracts		(iii) Other purposes	
	Weight	Percent	Weight	Percent	Weight	Percent
1946						
1947						
1948						
1949						
1950						
1951						
1952						
1953						
1954						
1955—January						
February						
March						
April						
May						
June						

See footnotes at end of table, p. 466.

TABLE 2.—*Distribution of total supply by years, 1946 through 1954, and by months since January 1955*—Continued

	(f) Otherwise distributed						
	Sold to domestic producers, weight	Exports of primary pig, ingot and billets, weight	Ingot for destructive uses, weight	Scrap, weight	Exchange transactions with other primary producers, weight	Total	
						Weight	Percent
1946	39		2			41	5
1947			3	1		4	
1948			3	1	7	11	1
1949			4	1		5	1
1950		1	7	2		10	1
1951	11	1	7	2	2	23	2
1952	6		7	2	2	17	1
1953	2	1	8	1	2	14	1
1954		1	3	1	2	7	
1955—January							
February							
March							
April							
May							
June			1			1	

	(g)	(h) Division of total supply of column (g) into—			
	Total supply distributed, weight [4]	(i) Exports of primary pig, ingot, and billets, weight	(ii) Exports of secondary or recoverable content of scrap, weight	(iii) Exports of other products, weight	(iv) All domestic disposals of metal, weight [4]
1946				3	
1947				15	
1948				17	
1949				5	
1950		1		14	
1951		1		11	
1952				9	
1953		1		13	
1954		1		10	
1955—January				3	
February				2	
March				1	
April				1	
May				1	
June				2	

[1] The figures in columns (*a*) and (*b*) make no exclusion for metal, if any, sold by Alcoa and then tolled or converted for customers. Alcoa maintains no records from which any such exclusion can be made and makes no attempt to record the source of metal which is tolled or converted for customers. Consequently it is impossible for Alcoa to make the requested exclusions in (*a*) and (*b*) or to supply any figures for columns (*c*) and (*d*). The amount of material handled by Alcoa on a toll or conversion basis, regardless of the source of that material, all of which is included in columns (*a*) and (*b*) is as follows:

[Millions of pounds]

	Toll or conversion metal included in—			Toll or conversion metal included in—	
	Column (*a*)	Column (*b*)		Column (*a*)	Column (*b*)
1946	3	7	1954	61	31
1947	2	12	1955—January	3	3
1948	2	20	February	4	2
1949	7	22	March	2	4
1950	27	23	April	3	3
1951	65	35	May	2	3
1952	35	21	June	3	3
1953	56	41			

[2] Includes 8 million pounds of sheet shipped to Government stockpile.
[3] Includes sheet withdrawn from Government stockpile and added to inventory.
[4] Figures omitted to avoid disclosing stockpile data

Reconciliation of revised table 2, col. (b) with: (a) I. W. Wilson testimony Feb. 2, 1951; (b) Department of Justice interrogatory No. 1, table 3, as amended to Mar. 2, 1954

[Millions of pounds]

	Revised table 2, col. (b)	Plus: sold to domestic producers	Plus: Sold to U. S. Government other than stockpile	Plus: Exports of pig, ingot and billets	Plus: Ingot for destructive uses	Plus: Exchange transactions with other primary producers	Minus: Toll and conversion sales	I. W. Wilson testimony Feb. 2, 1951
(A)								
I. W. Wilson testimony Feb. 2, 1951:								
1946	171	39			2		7	205
1947	181				3		12	172
1948	201		1		3	7	20	192
1949	150		1		4		22	133
1950	183			1	7		23	168
								Department of Justice interrogatory No. 1, table 3
(B)								
Department of Justice interrogatory No. 1, table 3:								
1949	150				4		22	132
1950	183				7		23	167
1951	147				7		35	119
1952 [1]	139				7		21	126
1953	153				8		41	120

[1] Does not reconcile due to rounding off in millions of pounds.

Question (supplement to revised table 2). In the original table 2, Alcoa listed in column 3 the sale of primary metal other than pig or ingot to nonintegrated users, in the form of reroll slab, reroll coils, foil stock, redraw rod, forging stock and tube blooms. In the revised table 2, the intention is to include such metal in column (*a*) as metal given some processing beyond the primary stage.

(*a*) Please supply separately an extension of these figures to include the years 1946 to 1954 and the first 6 months of 1955.

(*b*) Does Alcoa regard all this metal as moving into channels that later compete with Alcoa? Is any of this metal semifabricated into shapes, dimensions or products that Alcoa does not make?

(c) Can Alcoa submit actual or estimated figures in pounds of various products sold to nonintegrated users which are then used by the nonintegrated users to produce products that compete squarely with products that Alcoa makes or could readily make?

If so, please submit such figures for any recent year, 1954 preferably, showing the total amount of metal processed in each form by Alcoa (excluding pig, ingot and billet), the amount of each form sold to nonintegrated users that becomes competitive with Alcoa, and the amount that does not become competitive, broken down as far as possible in such classes as reroll slab, reroll coils, foil stock, redraw rod, forging stock, tube blooms, sheet, extrusions, etc.

Answer. (*a*) Sales of primary metal other than pig and ingot to nonintegrated users, in the form of reroll slab, reroll coils, foil stock, redraw rod, forging stock, and tube blooms.

Period	Millions of pounds	Period	Millions of pounds
1946	55	1954	118
1947	76	1955—January	13
1948	93	February	9
1949	84	March	11
1950	109	April	12
1951	102	May	12
1952	106	June	12
1953	132		

(*b*) and (*c*) While Alcoa knows, as a matter of trade knowledge, that many of its customers for these forms of aluminum make products which compete with products made by Alcoa, and that very substantial amounts of such forms of aluminum move into channels that later compete with Alcoa, Alcoa cannot regard all of such metal as moving into such channels. While Alcoa believes that some of this metal may be semifabricated (or fully fabricated) into shapes, dimensions, or products that Alcoa does not make, Alcoa has no actual figures and cannot estimate figures in pounds of the various products sold to nonintegrated users which are then used by the nonintegrated users to produce products that compete squarely with products that Alcoa makes or could readily make.

ALUMINUM COMPANY OF AMERICA,
Pittsburgh 19, Pa., September 12, 1955.

Re hearings of Subcommittee No. 3 on Minerals and Metals of the Select Committee to Conduct a Study and Investigation of the Problems of Small Business.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3,
House Select Small Business Committee,
House of Representatives, Washington, D. C.

DEAR MR. YATES: Enclosed please find answers to questions Nos. 1 and 2 in the attachment to your letter of July 25, 1955, to Mr. I. W. Wilson.

We have discovered an error in the answer submitted with my letter of September 2, 1955, to question No. 3 in the attachment to your letter of July 25, 1955, to Mr. Wilson. The figure for the original capacity in plant and facilities as purchased from the United States Government with respect to extrusions should be (expressed in thousands of pounds) 42,860, rather than 40,008. Would you please note this correction on that answer.

I am quite sure that it is thoroughly understood but, in order that there will be no mistake, I should point out that in answering your questions as to fabricating capacities we have estimated capacities for the average pattern of business and for equipment installed and ready for operation. Intermediate production capacity, which results when one fabricated product is used in manufacturing another, has been excluded. This was stated in a footnote in the answer to question No. 3 in the attachment to your letter to me of July 11, 1955, and applies as well to fabricating capacities given in answer to question No. 3 in the attachment to your letter of July 25, 1955, to Mr. Wilson.

With cordial regards, I am

Sincerely,

ALUMINUM COMPANY OF AMERICA,
D. WILMOT, *Vice President.*

Questions submitted in letter of July 25, 1955, to Mr. I. W. Wilson

Question 1. Please state the total assets in dollars, before depreciation, as shown by the balance sheet of Alcoa as of December 31, 1954, and as of December 31, 1939. Please state for the same dates the book value of common stock and surplus (common-stock holders' equity).

Answer. Total assets, before depreciation, as shown by the balance sheet of Alcoa.

Dec. 31, 1954	$1,468,088,788
Dec. 31, 1939	348,328,350
Book value of common stock and surplus:	
Dec. 31, 1954	$388,845,068
Dec. 31, 1939	58,784,665

Question 2. Please state the following information since January 1, 1946:

(*a*) Dollar volume of each loan and total for all loans made to Alcoa or any subsidiary by the United States Government or agencies thereof, giving for each loan.

(i) Agency or Government;

(ii) Date loan became effective in part or whole;

(iii) Principal purposes of loan, e. g. bauxite production, cargo ships, alumina, aluminum production, refunding indebtedness, etc.;

(iv) Interest rate or rates;

(v) Number of years for maximum term of loan;

(vi) Whether principal payable in other than cash—e. g. in alumium, bauxite, etc.;

(vii) Of repayments made to December 31, 1954, on the principal—

(*a*) Amount paid in dollars;

(*b*) Amount paid in kind (specify tons or pounds of the commodity, and dollar value of payments);

(viii) Amount outstanding on December 31, 1954:

(*a*) Amount repayable in dollars only;

(*b*) Amount repayable in kind (specify tons or pounds of each commodity, and maximum dollar value repayable).

Answer. The only loan made to Aloca or any subsidiary by the United States Government or any agency thereof since January 1, 1946, was a loan in the amount of $4,600,000 by the United States, acting through the Administrator of General Services, by agreement dated November 21, 1950. The loan became effective on January 11, 1951, the date the first advance was received. The purpose of the loan was to place in operating condition certain idle aluminum-producing facilities at the Badin, N. C., and Massena, N. Y., works of the company which were not normally operated by Alcoa because they were competitively uneconomic, primarily because of the unavailability of electric power at a competitively justifiable price. The rehabilitation of these facilities was in connection with the purchase by the Government, for stockpiling, of the output of these facilities in an aggregate amount of 672,250,000 pounds of pig aluminum. The interest rate was 4 percent per annum on all unpaid balances. The term of the loan was approximately 4 years. The principal was repayable in cash by credit against the purchase price to the Government of the aluminum purchased under the contract, and repayment of the principal was made in cash in the amount of $4,600,000 prior to December 31, 1954.

Question 2. Please state the following information since January 1, 1946:

(*b*) Of the total assets, undepreciated, of Alcoa, on December 31, 1954:

	Answer
(i) Total dollar amount of plant and equipment, undepreciated	$1, 124, 384, 764
(ii) Total dollar amount of plant and equipment, undepreciated, that—	
(a) Was purchased from the Federal Government, giving—	
1st, the total purchase price	15, 846, 526
and	
2d, the value as recorded on books of the company at the time of acquisition	15, 846, 526
(b) Is now leased from or owned by the Federal Government	None
[NOTE.—Plant and equipment which are now leased by Alcoa from the Federal Government or owned by the Federal Government do not constitute assets of Alcoa and are not carried on its books as assets. In addition, we do not have information as to the undepreciated dollar value of all of such equipment.]	
(iii) Total amount of tax amortization certified since 1939 (authorized amount), giving 1st—	
Amount applicable to total assets on Dec. 31, 1954	449, 544, 389
and	
Balance of amount to apply to plant and facilities not yet on books as of Dec. 31, 1954	32, 795, 256
(iv) Of the total price of plants and equipment purchased from the U. S. Government, the total maximum repayments possible in dollars, by settlement in aluminum or other materials (specify which type of material)	None

(c) Supply transactions by the United States Government since January 1, 1946:

(i) Amount in tons of bauxite and dollars purchased by Alcoa from Government reserves, separately shown for each year.

Answer: None.

(ii) Amount in pounds of aluminum and dollars purchased by Alcoa from Government reserves, separately shown for each year.

Answer:

	Pounds	Dollars
1946, Reconstruction Finance Corporation	126, 686, 076	18, 023, 551
1947, Reconstruction Finance Corporation	88, 035, 905	12, 505, 423
1948, Reconstruction Finance Corporation	11, 572, 008	1, 650, 367
1952, General Services Administration	17, 649, 528	4, 197, 445
1953, General Services Administration	11, 653, 919	2, 993, 796
1954, General Services Administration	517, 069	217, 623
1955 (1st 6 months), General Services Administration	109, 042	48, 481
	256, 223, 547	39, 636, 686

NOTE—An aggregate of 7,596,244 pounds of aluminum sheet included in the above figures, being all of the purchases during 1954 and the 1st 6 months of 1955 and substantial amounts of purchases during 1952 and 1953, were deliveries taken in those years under a repurchase of a total amount of 8,094,541 pounds of aluminum sheet which had originally been sold to the Government by Alcoa in 1951. More than an equivalent weight of aluminum pig was delivered to the stockpile in replacement of such sheet.

(*d*) Sales of primary aluminum by Alcoa to United States Government for all purposes in pounds and dollars, separately shown for each year, since January 1, 1946.

Answer:

	Pounds [1]	Dollars
1946	0	0
1947	0	0
1948	1,183,152	200,101
1949	903,207	167,136
1950	0	0
1951		15,261,796
1952		323,248
1953		24,326,063
1954		105,067,197
1955 (1st 6 months)		23,951,567

NOTE.—"Primary aluminum" is construed to mean pig and ingot (including fabricating ingot). The amounts shown above for 1948 and 1949 are sales of pig and ingot to the U. S. Government out of Alcoa's Washington office. All other amounts shown above represent pig shipments to the stockpile, including 8,098,432 pounds of pig aluminum delivered in 1953 and 1954 in replacement of an approximately equivalent amount of sheet purchased from Government reserves.

[1] Stockpile sales omitted.

Answer to letter of Hon. Sidney R. Yates, dated August 1, 1955, to Mr. Frank L. Magee

Question 1. In millions of pounds for each year, 1949 through 1954, and for the first 6 months of 1955, Alcoa's total sales of semifabricated and fabricated aluminum in 2 categories:

(a) Sheet

(b) Other fabrications

Exclude any primary metal in pig, ingot or billet form, and exclude material furnished under toll or conversion arrangements.

Include sales to domestic and foreign buyers.

Answer:

	(a)	(b)		(a)	(b)
1949	242	314	1953	442	572
1950	410	448	1954	368	483
1951	319	449	1955 (1st 6 months)	286	313
1952	316	541			

ALUMINUM COMPANY OF AMERICA,
Pittsburgh, Pa., October 13, 1955.

Re hearings of Subcommittee No. 3 on Minerals and Metals of the Select Committee to Conduct a Study and Investigation of the Problems of Small Business.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, House Select Small Business Committee,
House of Representatives, House Office Building,
Washington, D. C.

DEAR MR. YATES: Under date of September 21, 1955, you asked us to let you know "the total amount of power subsidies received by Alcoa from the Federla Government."

We assume that you refer to those instances in which General Services Administration has contracted with us to smelt aluminum for the account of the Government in plants or portions thereof which would not otherwise have been used by Alcoa because of the unavailability of power at a price we felt we could pay. Under these agreements, Alcoa agreed to operate these otherwise idle facilities for the production of aluminum for the Government and the Government agreed to pay the market price of the aluminum so produced and to absorb power costs above a negotiated figure. At Badin and Massena the Government bore the cost above 5 mills per kilowatt-hour and elsewhere the cost above 4 mills per kilowatt-hour.

These agreements began in 1950 but have now been terminated or are inoperative at all plants except Massena (where the arrangement continues on a reduced basis through December 31, 1955). The aggregate amount of these power costs paid by the Government at all plants of Aluminum Company of America from 1950 through August 31, 1955 (the last date for which figures are available) was $28,685,082. This money was spent to produce for the Government 841,197,630 pounds of aluminum which would not otherwise have been produced.

Very truly yours,

ALUMINUM COMPANY OF AMERICA,
D. WILMOT, *Vice President.*

(2) INFORMATION SUPPLIED BY REYNOLDS METALS CO.

REYNOLDS METALS CO.,
Richmond, Va., October 12, 1955.

Hon. SIDNEY R. YATES,
House Office Building, Washington, D. C.

DEAR CONGRESSMAN YATES: We understand that Congressman Henderson C. Lanham has written your committee regarding the relationship of Reynolds Metals Co. with its customer, the Dixie Corp. of Rome, Ga.

For you information, there is attached hereto a copy of a letter dated October 4, 1955 from Mr. J. M. Stuart to Mr. Brett Holmes of the Dixie Corp. fully setting forth the facts in the matter.

With best wishes, I am

Yours very truly,

MAXWELL CASKIE,
Assistant Vice President.

REYNOLDS METALS CO.,
Richmond, Va., October 4, 1955.

Mr. BRETT HOLMES,
Dixie Corp., Rome, Ga.

DEAR BRETT: Mr. David Reynolds and I have discussed your letter of September 23 to Bob Spitz, Senator George, and Congressman Lanham. I welcome the opportunity to reply. Your letters greatly surprise me. They indicate a serious misunderstanding on your part.

So that our position may be thoroughly understood, for purposes of clarification, I shall enumerate our comments.

1. You complain of our new form of contract. It differs from the contract which presently exists between Dixie and Reynolds in that the latter type of contract is a requirements-type contract, whereas the new contract form is based on fixed quantities. Our reasons for adopting the new form are very simple. The requirements-type contract has incurred for us the ill will of both contract and noncontract customers. During a period of slack demand, the requirements of contract customers would be relatively small. We would cultivate noncontract customers to dispose of our output. The business cycle would change. Demand would suddenly increase. Contract customers would call for large quantities of metal. Noncontract customers would also require larger quantities. To fulfill our obligations to our contract customers, we would have to curtail sales to noncontract customers who purchased from us when contract customers failed to do so. We could have to curtail these noncontract customers during periods of scarcity. Thus, we would incur their ill will. At the same time, contract customers would expect preferential treatment because they were contract customers. We could not grant this treatment because we felt an obligation to noncontract customers. Because we could not meet the demands for preferential treatment by our contract customers we incurred their ill will. Thus, the use of the requirements-type contract has actually damaged our business relationships with contract and noncontract customers.

To illustrate the foregoing, consider the purchases of Dixie during 1954 and 1955. During 1954, we had so much metal available that we had to ask the United States Government to purchase some of it in order that we could dispose of it. During the last 7 months of 1954, Dixie purchased 1,301,084 pounds from Reynolds. In 1955, the business cycle completely changed. During the first 7 months of 1955, Dixie purchased 2,136,184 pounds which we were obligated to sell. Dixie's purchases during the first 7 months of 1955 were almost double those of the last 7 months of 1954. You can recognize the position we are placed in with regard to noncontract customers which we cultivated in 1954 and who made purchases from us when Dixie and other contract customers had no use for the metal. Many of these noncontract customers have written to their Senators and Congressmen complaining that we were arbitrarily refusing to sell them metal which they needed. We have gone to the Government several times in 1955 to

request a reduction in stockpile calls in order that we might have enough metal to take care, at least partially, of the needs of all of our customers.

We believe that the adoption of a contract form calling for the purchase and sale of a fixed quantity of metal, during both periods of abundance and scarcity, will avoid many of the difficulties which we have encountered by using a requirements-type contract. We obviously could not continue a policy, the effect of which was to antagonize our customers. Our new contract form will enable us to plan production, know at all times our obligation to our contract customers and determine the amount of metal which we shall have available for those customers purchasing on an individual purchase order basis. Contract customers, noncontract customers and Reynolds will know at all times where they stand.

2. In your letter to Bob Spitz, you state—that Reynolds is in effect forcing you to sign a new agreement—that in your long business experience, you were never exposed to the choice presented in our proposed contract to you—that we have insisted upon a firm commitment from Dixie—that our cancellation of the present requirements-type contract implies a discontinuation of business relations.

Have we forced you to accept the new form of agreement?

On the contrary, we have extended to you the courtesy of offering you the new form of agreement. We have done this because we have had a requirements-type contract with you. We have not arbitrarily canceled the requirements-type contract. In its place, we have offered you the revised firm-quantity-type contract. We have offered you a sure source of supply during a period of scarcity. At the same time, we have explained to you that if you do not elect to execute the fixed-quantity-type contract we would be pleased to carry on business with you on an individual purchase-order basis.

What is this dreadful choice with which you have been presented?

We have offered to do business with you on a contract or noncontract basis: The contract which you have thus far not elected to sign has been signed by 90 percent of those customers who had requirements-type contracts with us. We anticipate that the remaining 10 percent will choose to sign in due course. We have a long waiting list of customers who are most anxious to sign this type of contract. We have refused to offer this contract to these customers until such time as we know what action these customers with whom we have had requirements-type contracts will take. We feel an obligation to this group of customers, which includes Dixie. We have offered you the choice of a contract generally accepted and desired by many or doing business with Reynolds on a noncontract basis.

What firm commitment have we asked Dixie to make?

When the contract was presented to you, you were cautioned to gage your needs realistically and to request a quantity which would not be in excess of a quantity which you could use at all times. You requested a relatively large quantity, which Reynolds was willing to accept. However, you did not want the obligation of buying that quantity at all times. We then suggested that you sign for a much smaller quantity. You replied that a contract for a smaller quantity would be of no benefit to you. We asked you to determine the extent of the commitment which you wanted to make. And again, we told you that if you did not choose to make a firm commitment, we would be pleased to carry on business on a noncontract basis.

Who has suggested a discontinuation of business relations?

The foregoing indicates that Reynolds has made no such suggestion.

3. You wrote to Senator George and Congressman Lanham that the contract was submitted to you on the basis of "take it or leave it." The contract was first submitted to you last May. You have had innumerable discussions with Bob Spitz and our attorney regarding its terms. We have indicated a willingness to make several changes in the contract. However, we have refused to make any change which would excuse Dixie from performance, except in the case of acts of God, and so on. Notice of cancellation was sent to you on August 23. Can it be said that the contract was offered to you on a "take it or leave it" basis?

4. You wrote to Senator George and Congressman Lanham that the contract would require you to take a fixed amount of metal without regard to your actual requirements and that it contained no contingency clause allowing you to defer shipments in the event of inability to use the metal. Except for the fact that we offered you a clause excusing you from performance in the case of acts of God, etc., your statement is correct. We make no apology for our contract. If Reynolds is willing to obligate itself to sell, we see nothing shocking in requiring the other contract party to obligate itself to purchase.

5. You think our contract is at variance with the intent of the Federal Government in subsidizing its expanded operations by means of rapid amortization of plant and installations. This theory is so novel that it needs no comment.

6. Finally, you speak of Reynolds' "highhanded action." We have indicated a willingness to obligate our company in return for your company obligating itself to the same extent. If this proposal is not acceptable to you, we have indicated that we would be willing to carry on business with you on an individual purchase-order basis. We have set forth our action above and we wonder how anybody could think it "highhanded."

7. When all is said, what you really want is for Reynolds to stand willing to furnish you a large quantity of metal under a contractual obligation, but you want no obligation to purchase any metal beyond what you can use. We do not believe that you or any purchaser can offer a sound reason for a supplier accepting such a contract, particularly at times when the products involved are scarce and demand is great.

I have written at length so that you might fully understand our position in this matter. We feel that we have extended Dixie every possible courtesy and consideration. The contract which we have offered you is still available to you.

Very truly yours,

J. M. STUART,
General Manager, Industrial Markets, Reynolds Metals Co.

REYNOLDS METALS CO.,
Richmond 18, Va., November 10, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3,
House Office Building, Washington, D. C.

DEAR CONGRESSMAN YATES: Responses to the two questions contained in your letter of October 26 are given below:

"(1) In millions of pounds for each year, 1949 through 1954, and for the first 6 months in 1955, your total sales of semifabricated and fabricated aluminum in 2 categories—

(*a*) Sheet
(*b*) Other fabrications

"Exclude any primary metal in pig, ingot, or billet form, and exclude material furnished under toll or conversion arrangements."

Response to question 1:

	Sheet	Other fabricated products		Sheet	Other fabricated products
	Pounds	*Pounds*		*Pounds*	*Pounds*
1949	205,300,000	103,400,000	1953	298,900,000	191,100,000
1950	233,900,000	143,900,000	1954	247,300,000	171,400,000
1951	253,300,000	177,000,000	1955 (first 6 months)	169,300,000	101,000,000
1952	265,300,000	188,900,000			

No exclusions have been made for toll or conversion. Refer to page 70 of responses furnished on Aug. 12, 1955.

"(2) The total amount of power cost subsidies received by you from the Federal Government."

Response to question 2:

We have not received power cost subsidies from the Federal Government. As described on pages 51–53 of our response to your committee, dated September 12, 1955, there were occasions during the operation of the controlled materials plan when the Government power agencies (TVA and Bonneville) were not able, from their own sources, to supply the aluminum producers with the quantities of power needed to produce the quantities of aluminum required under the controlled materials plan. Price controls were then in effect and the aluminum companies were unable to economically produce aluminum at the high cost of power which might be procured for them by the Government power agencies from private sources. At the request of the Government, arrangements were concluded for a division of the excess power cost between the companies and the Government whereby the aluminum produced from such high cost power would be disposed of at the Government controlled price and as directed by the Government. The

normal power rate in the case of our Pacific Northwest plants, for example, is 2 mills per kilowatt-hour. Under the sharing arrangement, Reynolds Metals Co. agreed to pay twice its normal power rate, or 4 mills per kilowatt-hour, with the Government agreeing to pay costs over 4 mills.

As a result of this program, TVA and Bonneville arranged for the necessary power deliveries, and for the period January 1, 1949, through June 30, 1955, General Services Administration paid to Reynolds and Reynolds thereafter paid either to these agencies or to the power producers $4,596,530.52. The total of Reynolds' excess power costs under these same arrangements and during this same period and additionally paid to these same producers was $878,338.74.

Very truly yours,

JOHN H. KREY, *Vice President.*

REYNOLDS METALS CO.,
Richmond, Va., January 9, 1956.

Mr. A. J. WALSH,
Commissioner, Emergency Procurement Service,
General Services Administration, Washington 25, D. C.

DEAR MR. WALSH: The staff of the Yates Small Business Subcommittee has called to our attention apparent discrepancies between figures we have furnished them showing Reynolds Metals Co.'s total sales to nonintegrated users of pig. ingot, and billet and figures furnished them by your Department taken from our reports to GSA made pursuant to our supply contracts with your agency,

From July 1, 1953, through March 1955, in reporting to GSA as to its sales to nonintegrated users, Reynolds Co, did not show all its sales in this category, Each of the quarterly figures reported to you was carefully footnoted with the following: "shipments to customers who are nonintegrated users and with whom we have requirements contracts only."

The reason for thus reporting to GSA less than our entire shipments to nonintegrated users was twofold—first, no greater quantity was needed to discharge our obligation under the contracts with the Government and, second, auditing shipments to contract customers only would involve less paperwork and effort on the part of both Reynolds and the Government. When GSA, however, reported to the Yates committee Reynolds Metals Co.'s shipments to nonintegrated users it did not indicate to the committee the limited nature of the figures Reynolds had reported.

Attached hereto is a three column tabulation of figures relating to Reynolds Metals Co.'s sales of pig, ingot, and billet to nonintegrated users. Since furnishing figures to the Yates committee, we have agreed with members of your staff that the 5,300,000 pounds sold during the first half of 1955 at the direction of Aluminium, Ltd., while actually a sale by Reynolds of pig, ingot, and billet, was not technically a sale to nonintegrated users as defined in the supply contracts and, therefore, should not be included in determining whether Reynolds had discharged its obligation in this respect. Further, an additional quantity of 5,900,000 pounds sold during 1954 at the direction of Aluminium, Ltd., also should not be included. These quantities have been deducted from the third column, which stands as the corrected total of Reynolds Metals Co.'s sales to nonintegrated users.

This rather lengthy letter is to set the record straight and to request you to advise the Yates committee that, in fact, our figures as reported to you for each quarter beginning with the third quarter of 1953 and ending with the first quarter of 1955 bore the limiting footnote above quoted.

Yours very truly,

MAXWELL CASKIE,
Assistant Vice President.

Attachment: Subcommittee No. 3, House Select Committee on Small Business.

	Quantity of pig, ingot, and billet sold to nonintegrated user customers, as reported to GSA on quarterly reports	Quantity of pig, ingot, and billet actually sold to nonintegrated users as reported to Yates committee on Sept. 12, 1955	Quantity of pig, ingot, and billet actually sold to nonintegrated users after eliminating sales for the A/C of Aluminum, Ltd.
3d quarter 1953	13.2	37.2	37.2
4th quarter 1953	10.0	36.8	36.8
1st quarter 1954	9.3	26.8	24.6
2d quarter 1954	10.6	30.9	29.1
3d quarter 1954	9.2	32.0	31.0
4th quarter 1954	14.1	45.8	44.9
1st quarter 1955	57.9	89.8	84.5
2d quarter 1955			

REYNOLDS METALS CO.,
Richmond, Va., September 12, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN YATES: We are enclosing herewith the responses of Reynolds Metals Co. to the requests for information contained in your recent letters and questionnaires as follows:

1. Letter of July 11, 1955, to Mr. Maxwell Caskie, with annexed 5-page questionnaire.
2. Letter of July 12, 1955, to Mr. Richard Reynolds, Jr.
3. Letter of July 15, 1955, to Mr. Maxwell Caskie.
4. Letter of July 18, 1955, to Mr. Richard Reynolds, Jr.
5. Letter of July 25, 1955, to Mr. Richard Reynolds, Jr., with annexed 4-page questionnaire.
6. Letter of August 8, 1955, to Mr. Richard Reynolds, Jr.

For your convenience, we have subdivided our responses into the several subject matters covered, giving appropriate cross-references to the date and number of the specific inquiries. These subjects are as follows:

Part I: Significant recent developments.

Part II: The growth of Reynolds Metals Co. in the period 1939 to date, and its dealings with the United States Government during this same period.

Part III: Reynolds Metals' postwar supply and distribution of aluminum.

Pursuant to the request made under date of August 15, 1955, by Senator Murray, chairman of the Senate Committee on Interior and Insular Affairs, we are also sending to him a copy of this letter and the attached responses by Reynolds Metals Co.

Sincerely yours,

R. S. REYNOLDS, Jr., *President.*

RESPONSES OF REYNOLDS METALS CO. TO QUESTIONS BY THE HONORABLE SIDNEY R. YATES, CHAIRMAN, SUBCOMMITTEE NO. 3, SELECT COMMITTEE ON SMALL BUSINESS OF THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES, 84TH CONGRESS

PART I. SIGNIFICANT RECENT DEVELOPMENTS

There have been a number of important recent developments in connection with the expansion of primary aluminum capacity. These developments bear upon the adequacy of the supply of primary aluminum in the relatively near future, the continued growth of existing primary producers, and the likelihood that new primary producers will be entering this industry. We regard them as relevant to all of Chairman Yates' questions, and particularly to those dealing with the growth of Reynolds Metals Co.,[1] and Reynolds Metals' postwar supply and distribution of aluminum.[2]

[1] Annexed to Congressman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955.
[2] Annexed to Congressman Yates' letter to Mr. Caskie, dated July 11, 1955.

The record is clear as to the dynamic character of the aluminum industry after the entry of Reynolds Metals Co. into the primary production field in 1940, under the leadership of the late Mr. R. S. Reynolds, Sr. Recent developments in this field are highly significant, because they illustrate that Reynolds Metals is today displaying the same high degree of vision and courage in expanding its primary production of aluminum that it has demonstrated from the beginning.

A. REYNOLDS NEW EXPANSION PROGRAM

Reynolds Metals Co, has recently announced the largest and most comprehensive expansion program in its history. As presently planned, this will have the effect of increasing the company's capacity for producing primary aluminum to 1,100,000,000 pounds.

The total to be expended on this new expansion program is $230 million out of which some $200 million will be devoted to a 270 million pound expansion of primary production and related facilities. These will include construction of a 200-million pound primary production plant in the Ohio River Valley, a 300,000-kilowatt power station which will utilize coal from adjacent company-owned deposits and increased bauxite operations to make available over 1 million additional tons of bauxite a year. Operations will be expanded in all four of the company's bauxite mining areas—Haiti, Jamaica, British Guiana, and Arkansas—and a new ore carrier will be constructed.

Additions to present plants, providing 70 million pounds of this new primary capacity, are scheduled for completion in 1956. Construction amounting to $22,500,000 will start immediately and this will add 50 million pounds of capacity at Reynolds Metals' Alabama plant, and 20 million pounds at its Texas plant.

Only $30 million—or 15 percent—of Reynolds Metals' new expansion program will be utilized for additional fabricating facilities, and this will be used principally for the modernization and enlargement of present plants.

It is contemplated that this entire new program will be privately financed. Reynolds Metals recently consummated a $235 million refunding operation, which will, in part, assist it in accomplishing this objective.

Applications have been made to the Office of Defense Mobilization for tax amortization certificates covering the primary producing and related facilities. These certificates, as is well known, do not increase the amount of tax amortization allowable under existing statutes, but do enable the new facilities to be amortized within a shorter period than would be possible without them. The Government extends this inducement for the building of new facilities in important defense industries to all qualified applicants on equal terms.

B. EXPANSION PROGRAMS BY OTHER EXISTING AND PROSPECTIVE NEW PRIMARY PRODUCERS

We are informed that announced plans for primary aluminum production by companies other than Reynolds Metals, as of August 12, 1955, included the following:

	Tons
Kaiser	95, 300
Anaconda	60, 000
Harvey Aluminum	50, 000
St. Joseph Lead and Pittsburgh-Consolidated	66, 000
Revere Copper & Brass	60, 000
Olin-Mathieson	60, 000
Alcoa	65, 000
Total for others	456, 300
Reynolds Metals (as stated in preceding section)	135, 000
Total of announced expansion plans	591, 300

Assuming that these programs are completed in accordance with existing plans, they will increase United States primary capacity for aluminum to slightly more than 2 million tons, as compared to the approximately 1,460,000 tons which were produced last year.

PART II. THE GROWTH OF REYNOLDS METALS CO., 1939 TO DATE, AND ITS DEALINGS WITH THE UNITED STATES GOVERNMENT DURING THIS SAME PERIOD [3]

A. SCOPE OF RESPONSE

During the period 1939 to date, Reynolds Metals Co. has had an outstanding record of growth. This company entered the field of primary aluminum production in 1941 and its initial annual primary capacity of 100 million pounds has today been increased over 700 percent.

During this same period, Reynolds Metals Co. has from time to time had various dealings with the United States Government. It has received loans and tax amortization certificates from the Government. It has leased, and later purchased, from the Government, plants and facilities of various types. It has also purchased from the Government supplies of various kinds, including electrical energy.

If, however, in discussing the growth of Reynolds Metals since 1939, we were to confine ourselves solely to facts such as the foregoing, we would be guilty of affirmatively misleading your subcommittee. No consideration of the benefits which may have accrued to Reynolds Metals from its dealings with the United States Government could be other than misleading if it did not take into account:

1. The circumstances under which each transaction occurred, with particular reference to the contribution made by Reynolds Metals and the risks incurred by it under the then existing circumstances;

2. The balance of benefits accruing to the United States Government in terms of financial return, in terms of competition, in terms of defense position; and

3. The way in which the inducements to expansion offered to Reynolds Metals compared with those given to other producers, both domestic and foreign.

We have, therefore, included the pertinent facts under each of the foregoing heads in our response to the questions relating to the comparative position of Reynolds Metals at December 31, 1939, and December 31, 1954, and Reynolds Metals' dealings with the United States Government, 1939 to date—as forwarded under Chairman Yates' covering letter dated July 25, 1955. The various major transactions with the Government and the facts relevant to each are set forth chronologically.

For the most part, as you will note, these facts have already been made of record in the many investigations of the aluminum industry which have been conducted by various committees and subcommittees of the Congress and by others. Moreover, they are not based simply upon self-serving declarations by Reynolds Metals or its representatives, but are vouched for by eminent members of the Congress and the executive branch who have become familiar with the facts.

We deem it particularly important that your subcommittee be informed as to this record, because, even today, the false and dishonest innuendo that Reynolds Metals Co. was put into the primary aluminum business and has since been maintained in business by virtue of governmental initiative, and without risk, continues to be broadcast by self-styled experts in the aluminum field.

We recognize without question that Reynolds Metals has received notable benefits from actions taken in the public interest by the United States Government and various of its agencies and that such actions have also resulted in notable benefits to the United States—in terms of money received, in terms of competition, and in terms of the national defense. We further submit that the record is clear to the effect that these benefits—both for the Government and for Reynolds Metals—would not and could not have been realized unless Reynolds Metals Co. had, as it did, the vision, the courage, and the patriotic will to take advantage of circumstances and opportunities which were available to all qualified applicants on the same or even better terms.

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[3] Reference: Questionnaire annexed to letter from Chairman Yates to Mr. Richard Reynolds, Jr., dated July 25, 1955, questions 1 and 2.

B. REYNOLDS METALS CO. AS OF DECEMBER 31, 1939.[4]

Reynolds Metals Co. was organized in 1928, at which time it took over the manufacturing activities of the United States Foil Co., organized in 1919. From 1928 through 1939, the business of Reynolds Metals Co. consisted of the two major categories, namely:

1. The rolling, converting, and printing of lead, tin, and aluminum foil and the production of aluminum powder and paste—raw materials for aluminum paint.

2. The manufacture of thermostats for control of temperatures and pressures, through wholly owned subsidiary companies.

In these 11 years of operation from 1928 through 1939, which included the depression years—

The company's product lines were expanded.

Sales increased 60 percent.

Profits were recorded each year.

Remarkable, indeed, was a record of profitmaking in every year of the greatest depression this country has ever experienced.

Dividends were paid each year, except in 1939 when the company was engaged in building up its cash reserves for the expansion which lay ahead. In 1939, it should be noted, prior sales records were exceeded.

By 1939, Reynolds Metals had become the Nation's largest fabricator of lead, tin, and aluminum foil products and was the largest manufacturer of thermostatic controls for the gas and electric range, water heater, and automobile industries.

The annual report for the year 1939 records:

Total assets at $23,627,266 (after deducting depreciation of $6,017,917).

Current assets, $8,855,577; current liabilities, $2,405,100.

Net sales, $20,495,786; net profit, $1,526,891.

Capital stock and surplus, $18,053,112, of which $5 million represented the 5½ percent convertible preferred.

There was no mortgage debt. A 6-year bank loan for general corporate purposes was outstanding in the amount of $2 million.

In brief, on December 31, 1939, Reynolds Metals Co. was, by national standards, a large, growing and profitable business, free of mortgage debt, with a net current asset ratio of 3.68 to 1 and an 11-year net earnings record exceeding $17 million. Again, it should be noted that this record is all the more remarkable, because it was established for the most part in depression years.

This entire business—and its future, as well—were put at risk in order to enable Reynolds Metals Co. to enter the primary aluminum business, under the circumstances outlined below.

C. THE RFC LOANS AND RELATED TRANSACTIONS WITH THE GOVERNMENT, 1940–45[5]

1. The original RFC secured loan of $15,800,000

In 1939, although Reynolds Metals Co. was the largest United States fabricator of aluminum foil, it was dependent for its supplies, consisting mainly of primary pig and aluminum coils, upon Alcoa, which was then the sole integrated producer of aluminum in the United States. As the threat of war in Europe intensified and rearmament in this country got underway, Reynolds Metals experienced difficulty in securing delivery of the aluminum that its expanding business required.

An equally important factor was the then settled conviction of Mr. R. S. Reynolds, Sr., based in part upon personal observation of the manner in which aluminum was being secretly diverted by the totalitarian countries, that the coming war would be a light metals war, in which huge amounts of aluminum would be a vital necessity.

On May 18, 1940, Mr. Reynolds consulted Senator Lister Hill, who had made a study of light metals as a member of the Senate Military Affairs Committee and earlier as chairman of the House Military Affairs Committee. Mr. Reynolds advised Senator Hill that Germany, her allies and conquered territories, including France, if conquered, could produce 1 billion pounds of aluminum per year, whereas the production of the United States had never exceeded 327 million pounds. He asked Senator Hill to make a notation of the following statement:

"This is a light-metals war and will be won or lost in the air. France, England, and America have ignored for 5 years the sensational increase in production of

[4] Ref.: Questionnaire forwarded under covering letter from Chairman Yates to Mr. Richard Reynolds, Jr., dated July 25, 1955—Question No. 1.

[5] Ref.: Questionnaire forwarded under covering letter from Chairman Yates to Mr. Richard Reynolds, Jr., dated July 25, 1955—Question No. 2.

aluminum and magnesium metals by Germany and her allies. As a consequence of this tragic failure, France is now doomed. Unless we quickly awake to the peril of this new type of aerial warfare, England will fall, and America will follow." (See Congressional Record, 77th Cong., 2d sess., vol. 88, p. 4401.)

Mr. Reynolds then urged that United States primary aluminum capacity be increased by 1 billion pounds annually.[6]

Senator Hill was greatly impressed by Mr. Reynolds' statement. At the Senator's request, Mr. Reynolds twice called on the then Secretary of War, and also on Mr. Arthur Davis, chairman of the board of Aluminum Company of America. Mr. Reynolds presented the comparative statistics of aluminum production to both the Secretary of War and Mr. Davis and urged that the Government immediately furnish Alcoa funds sufficient to enable it to increase quickly our aluminum production by 1 billion pounds.

In spite of Mr. Reynolds' insistence, no one was willing to accept his views as to the urgent need for a great increase in aluminum capacity.

This is the true background of Reynolds Metals' decision to enter the primary aluminum field as a producer.[7] It demonstrates beyond question that Mr. Reynolds' vision of our country's need for primary aluminum capacity in time of war was prophetic. Nothing serves more to underline the business risk he incurred by deciding to create this additional primary capacity, than the fact that his views ran contrary to all of those who should have had an informed judgment on the subject.

On August 1, 1940, the Reconstruction Finance Corporation announced the making of a loan of $15,800,000 to Reynolds Metals Co. for the construction of an integrated aluminum plant in which would be carried on all processes, from bauxite to finished ingot. In order to secure this loan, Reynolds Metals gave a first mortgage upon its entire property, consisting of 18 plants, only 5 of which were used in the aluminum fabricating business.

This loan to Reynolds Metals was regarded by the RFC as "strictly a business proposition" and not necessarily as a defense project.

(a) *Terms and conditions of the RFC loan.*[8]—In 1951, the Honorable W. Stuart Symington (now Senator Symington), who had been appointed to reorganize the RFC, characterized that agency's loan to Reynolds Metals Co. as "* * * a typical illustration of the best in RFC operations."

A review of the major terms and conditions imposed by the RFC clearly confirms the RFC's view that the loan was "strictly a business proposition." The RFC loaned Reynolds Metals $15,800,000, repayable in cash, with interest at the rate of 4 percent annually, and this loan was secured by a first mortgage of Reynolds Metals' 18 plants, representing a net capital investment of almost $24 million. As noted above, these plants, of which 13 had nothing to do with aluminum, had been highly profitable every year since the company had been organized in 1928, even though the depression had intervened. During the more than 11 years of the company's existence, those facilities had earned over $17 million—an average net profit on investment of 13 percent. Most important of all, Reynolds Metals' earnings had not only been high, but had also been more constant than those enjoyed by industry.

The RFC mortgage also had a number of special provisions to insure that the Government would have a first claim on the earnings of Reynolds Metals Co. The mortgage covered not only the company's plants then in existence, but also any plants which it might thereafter acquire. In any year in which one-third of the company's earnings exceeded the amount due under the mortgage, such excess would have to be paid to the RFC to be applied in reduction of the loan. Dividends were limited and the RFC had to approve all salaries in excess of $6,000 per year.

This transaction involved no Government contracts, no subsidies, and no guaranties.

While Reynolds Metals Co. regarded—and continues to regard—this RFC loan as a fully secured, conservative business transaction, it freely concedes that the money thus secured would not have been advanced in 1940 by commercial bankers in order to enable Reynolds Metals to enter the primary aluminum field—not because of any deficiency in Reynolds' business ability, but because of the extraordinary difficulties confronting anyone trying to become an aluminum

[6] Mr. Reynolds testified concerning these facts before the Senate Committee Investigating the National Defense Program (the so-called Truman committee). See hearings before a Special Committee Investigating the National Defense Program, U. S. Senate, 77th Cong., 1st sess., pt. 3, pp. 749–750.

[7] This decision and its implications were commented on in the Senate by Senators Hill and Truman. See Congressional Record, 77th Cong., 2d sess., vol. 88, pp. 4401–4402 (May 18, 1942), a copy of which is attached as annex A.

[8] For details, see annex B, attached.

producer in 1940. The industry was then over 50 years old and no newcomer had been successful in all those years. But such a loan by the RFC exemplified the very purpose for which that agency had been created; namely, to accept sound business risks which commercial banking sources were unwilling to finance. RFC financing has never been an exclusive Reynolds Metals prerogative. Furthermore, that same fact emphasizes and underlines the degree of risk assumed by Reynolds Metals when it staked an established and profitable business upon its ability to succeed in a new and untried field.

It should be noted, moreover, that RFC approval of its loan to Reynolds Metals on August 3, 1940 was subject to proof of availability of power and bauxite. The former was secured from governmental agencies and the latter from private sources—neither without difficulty.

(*b*) *The power contract with TVA.*—Reynolds Metals secured its initial electric power from TVA. It was able to obtain only one-third primary and two-thirds secondary power, which latter is subject to interruption. For the primary power, Reynolds Metals was required to pay 3.14 mills per kilowatt-hour, as compared with a rate of 2.74 mills per kilowatt-hour—13 percent less—which had been given to Alcoa for 30,000 watts of identical power in 1937. Reynolds Metals' contract with TVA, moreover, was not even as favorable as one negotiated at or about the same time to supply an expanded Alcoa operation at Knoxville, Tenn. Alcoa, but not Reynolds Metals, was assured of a cut in the rate charged to it if any competitor secured cheaper power from TVA.

(*c*) *Bauxite and other necessary supplies.*—In connection with its initial efforts to become an aluminum producer, Reynolds Metals received no assistance from any other producer. It had to make its own arrangements for bauxite supplies, chemicals, and carbon. As stated in the Report of the Surplus Property Board to the Congress, respecting Aluminum Plants and Facilities, dated September 21, 1945, page 23:

"* * * The war with Japan upset Reynolds' plans to import at a low price high-grade bauxite from the Dutch East Indies and forced the company to buy or mine lower grades of ore in Alabama, Georgia, and Arkansas and to buy at war prices some high-grade ore from South America and from an independent domestic producer. High-grade bauxite in this country was held by others, most of the reserves reportedly held by Alcoa. Reynolds' wartime costs of bauxite were thus higher than Alcoa's and the average available grade was lower than the prewar Alcoa average." [9]

2. Prewar increase in the RFC loan: An additional $4,200,000, making the total $20 million

The basic facts leading to the first increase in Reynolds Metals' RFC loan are stated in a letter from the late Harold L. Ickes, President Roosevelt's Secretary of the Interior, to Marion Caskie, executive vice president of Reynolds Metals, dated January 5, 1951 (a copy of which is attached hereto as annex C), as follows:

"As I recall, Reynolds Metals Co. entered the aluminum business in competition with the Aluminum Company of America entirely on its own initiative without any Government agency requesting or urging it to do so. It was done over the active opposition of some of those in charge of the national defense program. Mr. Reynolds also had difficulty in getting power. At first, TVA turned him down until Senator Lister Hill brought it to its senses. Mr. Reynolds had to come to me personally to get Bonneville power but I was glad to let him have it, even if some men high in the administration brought real pressure to bear upon me to give it to Alcoa instead of to Reynolds.

"After Reynolds had arranged its initial loan from RFC, I then urged it to increase the productive capacity of its then comparatively small plant contemplated at Longview, Wash., and I advised Reynolds that I had conferred with Mr. Jesse Jones and that RFC would lend additional amounts to Reynolds to permit it to increase that plant's capacity up to 60 million pounds per year. Mr. R. S. Reynolds, Sr., chairman of your company's board, promptly responded to my request. The plant's capacity was thus increased, and its production proved most helpful in the successful prosecution of World War II."

The result of this action was to increase Reynolds Metals' RFC loan by $4,200,000, to a total of $20 million. This additional amount, like the original loan, bore interest at the rate of 4 percent annually and was secured by the mortgage on all Reynolds Metals' property. It also had the effect of greatly increasing Reynolds Metals' primary aluminum capacity, a point that was not without significance in the prosecution of the war effort.

[9] See also p. 486, below.

3. Wartime increases in the RFC loan aggregating $23 million, making a total of $43,000,000

During the war, Reynolds Metals further expanded its aluminum capacity from the 100 million pounds annually, which had been made ready before the end of 1941, to 162 million pounds. In order to do this, to expand related fabricating facilities, and to secure the additional working capital required by its expanded organization, Reynolds Metals borrowed an additional $23 million from the RFC in 1942 on the original terms. This was done at Government request. Interest was payable at the rate of 4 percent annually, and the loan was secured by a first mortgage on existing and after-acquired property. The details and dates are set out in annex B attached.

4. Expansion of fabricating operations—RFC loan to Reynolds Alloys of $3 million

The above-described expansion of Reynolds Metals' primary aluminum production led to the need for a corresponding expansion in Reynolds Metals' fabricating operations. Then, as now, many manufacturers of war or defense equipment did not use aluminum pig or ingot—the form in which aluminum comes from the primary producing plants.

In the spring of 1940, Reynolds Metals found the entire equipment for a mill for rolling aluminum sheet and rod stranded in freight cars in New York City's rail yards. This equipment had been ordered by the French and then, after the fall of France, had been taken over by the British Purchasing Commission. Although Reynolds Metals sought authority to purchase this equipment immediately, it was not until early 1941, after successive options granted to three other companies had expired, that Reynolds was able to do so.

Reynolds Metals acquired this equipment from the British on its own credit for $3,800,000. This was done through a fabricating affiliate, Reynolds Alloys Co. Then, by arrangement with the Government, this equipment was incorporated in a Defense Plants Corporation (DPC) plant at Listerhill, Ala. This plant was built by Reynolds for the Government without fee and was thereafter operated by Reynolds under a lease for a rental based on sales.

From date of completion to date of acquisition of this plant by Reynolds Metals from the Government in 1947, a total of $8,200,000 rental was paid to the Government by Reynolds Metals on account thereof.

In connection with this series of transactions, Reynolds Alloys borrowed $3 million from the RFC at 4 percent interest in order to provide the company with adequate working capital. This loan was secured by a mortgage on the equipment for which Reynolds Alloys had paid $3,800,000, and on all the company's real estate then owned or after acquired, as well as by the pledge of all of Alloys' contracts with the United States Government or with others.

Reynolds Metals also built for the DPC at Louisville, Ky., and operated during the war, an aluminum extrusion plant. This plant was built and operated without any profit to Reynolds Metals. Actually, the company sustained a loss of approximately $1 million, which was the equivalent of the amount of rent Reynolds Metals paid to the Government during the period of this plant's operation. After the war, the Louisville plant was dismantled and its equipment was sold by the Government to various interests.

5. Summary balance sheet of benefits resulting from the RFC loans aggregating $46 million [10]

By the end of World War II, Reynolds Metals' long-term secured loan from the RFC, bearing interest at the rate of 4 percent annually, totaled $46 million.[10] Through the efforts of Reynolds Metals and its management, this money had been transmuted into facilities having a primary aluminum capacity of 162 million pounds annually, as well as additional fabricating facilities.

Moreover, this great new capacity represented a net gain to Reynolds Metals only if it could be converted successfully to civilian markets and then only if civilian markets for aluminum were to continue to equal, or exceed, the hugely expanded national capacity. Under the pressure of war, this had increased from 350 million pounds in 1939 to 1,800 million pounds annually in 1946.

While there were many in 1944–46 who denied that the civilian market would be able to absorb this tremendous capacity, Reynolds Metals was never among their number. This company was confident as to the outlook for aluminum, and through the RFC loan, Reynolds Metals was enabled to capitalize on the full potential of the industry's growth.

[10] Inclusive of the $3 million loan to Reynolds Alloys, referred to above. Requested details with respect to each segment of this loan are set out in annex B, attached.

In fairness, however, it should just as clearly be recognized that there is a balance of benefits which the United States Government has realized from these same transactions. We submit that the amount of these benefits bears a direct relation to the aggressiveness and efficiency with which Reynolds Metals seized the opportunities afforded it by the RFC loans, as well as the risks it was prepared to assume in order to do so.

The benefits accruing to the Government from the RFC's loans to Reynolds Metals should be assessed under three heads; namely, in terms of financial return, in terms of competition, and in terms of our national defense position. These are as follows:

(*a*) *Financial return to the Government*—

Direct:	
(1) Principal, in full	[1] $46,000,000
(2) Interest	16,100,111
Indirect:	
(3) Total rental of leased plants (pre- and post-war)	24,000,000
(4) Payments for power (through 1945 only)	17,800,000
(5) Federal income taxes (through 1945 only)	17,100,000

[1] In connection with the RFC's liquidation, that agency in 1954 disposed of $20,991,600 of Reynolds Metals' obligations for $19,942,020. These obligations were retired by Reynolds Metals at their face value, and an additional $1,293,753 of interest was paid to the banks and insurance companies which had purchased these obligations.

(*b*) *Benefit to the Government in terms of competition.*—Through its own initiative and by risking its own capital, Reynolds Metals became the first fully integrated competitor of Alcoa in the United States. The capacity which Reynolds Metals built in about a year and a half amounted to amost one-half of this Nation's total capacity at the beginning of 1940.

A development which bears upon competition, and also upon the financial benefits received by the Government, is the fact that on August 1, 1940, the day on which the RFC loan to Reynolds Metals was made public, Alcoa announced a reduction in the price of aluminum ingot from 19 cents to 18 cents a pound.

By the second year of Reynolds Metals' primary production, the base price of aluminum had been cut to 14 cents per pound. (See hearings before the Subcommittee on Study of Monopoly Power, House Committee on the Judiciary, 82d Cong., 1st sess., pt. 1, p. 112.)

These facts impressed the Joint Committee on Defense Production, which stated in its progress report No. 24, relating to the aluminum expansion program and competition:

"Before World War II, the price of aluminum ingot was 20 cents a pound and that is also the price today. In the interim it had gone down to 15 cents and raw pig aluminum to 14 cents. No other major metal, nor commodities generally, have a comparable record of keeping prices down:

* * * * * * *

"There has been neither a revolution in technology nor the windfall of new cheap ores to account for the favorable price record of the aluminum producers. The basic processes used are substantially the same today as they were back in 1939. The ores are of similar or lower grade.

"The cost increases experienced by other industries have also been felt by the aluminum producers. Transportation is a major element of cost, with much of the bauxite ore coming from South America and cross-country rail hauls for the refined ore (alumina) and the aluminum ingots. The rates have risen for aluminum just as they have for other commodities. Similarly the aluminum industry has had to pay higher wages just as other industries have.

"The relatively low price of aluminum cannot be attributed to a weak demand. During most of the years since 1939 the demand for aluminum has been very strong. In fact the price of aluminum ingot dropped when wartime costs were rising sharply and the shortage was rather severe. So, neither lack of demand nor falling costs can be cited as the primary cause of low aluminum prices.

"Most revealing is the fact that the most pronounced drop in the price of aluminum ingot, from 19 cents to 15 cents, occurred between August 1, 1940, and October 1941. That is the precise period, beginning with August 1, 1940, when the Reynolds Metals Co. announced publicly its firm decision to become this country's first independent producer, built two producing plants and brought them into production in May and September 1941, respectively. Consequently, this appearance of a second producer, the beginning of competition, seems to have been the principal cause of the drastic drop in 1940–41 aluminum prices."

* * * * * * *

"One of competition's principal benefits, relatively low prices, has thus been achieved and maintained in the aluminum industry from the very day the first independent producer entered the field back in 1940—down to date."

If the joint committee was correct in its conclusion, the savings to the United States Government on its wartime purchases of aluminum resulting from Reynolds Metals' entry into the primary aluminum production field amounted to upwards of $225 million.

(c) *Strengthening of the national defense position.*—We believe that it is unnecessary to underscore the importance to the United States—with only 350 million pounds of capacity before the war—of having 100 million additional pounds of aluminum capacity in place at the end of 1941 and still another 62 million pounds of additional capacity available shortly thereafter. History has demonstrated, far better than anything we could say, that the concern of Mr. R. S. Reynolds, Sr., was of more value to our national defense than the counsels of complacency urged by others.

It is impossible to assess the catalytic value of Reynolds Metals' actions during this immediate prewar period. We feel it reasonable to suggest that the impact of Reynolds Metals' entry into the primary aluminum field upon aluminum prices was paralleled by the effect of its action in stimulating further expansion of capacity by others.

(d) *Comparison of governmental dealings with Reynolds Metals and with other domestic and foreign producers.*—We have noted above certain instances in which various governmental agencies gave Reynolds Metals somewhat less favorable treatment than they were willing to extend to its firmly established competitor, Alcoa. For example, the Government charged only 3 percent interest on DPC advances to others in the aluminum industry, while Reynolds Metals paid 4 percent on all of its RFC loans and all advances by DPC.[11] But, perhaps the most striking demonstration of the fact that Reynolds Metals, rather than being favored by the Government, was given assistance upon substantially less advantageous terms than its competitors, is afforded by a comparison of the RFC loans to Reynolds with the grants in aid given to Alcan.

If we include the $3 million advanced to Reynolds Alloys Co., the RFC advanced to Reynolds Metals a total of $46 million, all of which was secured and all of which bore interest at the rate of 4 percent per annum. As compared with this, the United States Government granted to Alcan an unsecured advance in the principal amount of $68,500,000 and it was originally proposed that no interest be charged on this loan.

The outstanding points with respect to this Alcan transaction were touched upon by former Secretary of the Interior Ickes in the letter to Mr. Caskie dated January 11, 1951, to which we have previously referred, and a copy of which is attached as annex C. Therein, Mr. Ickes stated:

"I further recall that the Senate War Investigating Committee and the Senate Small Business Committee found that while the Aluminum Company of Canada was advanced $68,500,000 by our Government, without collateral and originally without interest and was given firm orders for large quantities of aluminum that aggregated as much as 1,400 million pounds with favorable escalator clauses to take care of possible increases in cost of production, Reynolds Metals Co., was not afforded similar treatment for the same purpose namely, to produce aluminum for the defense purposes. For its original and subsequent loans, Reynolds was required to produce adequate collateral in the form of first mortgages on all of its numerous industrial plants, then unencumbered, as well as first mortgages on the plants to be built with the proceeds of loans or subsequently acquired. In addition, it was required to deposit as collateral all stock held by the company in subsidiary and affiliated companies. Reynolds' loans bore interest at the rate of 4 percent, and my recollection is that this was a higher rate than that charged the Aluminum Company of Canada.[12] Reynolds received no firm orders, and no down cash payments, and none of the other favorable terms afforded the Canadian company.

"I have before me the interim report of the Surplus War Property Subcommittee of the Special Committee to Study Problems of American Small Business, United States Senate, 79th Congress, 1st session, pursuant to Senate Resolution 28, of September 10, 1945, in which reference is made to the extraordinary assistance given the Aluminum Company of Canada by the United States Government.

[11] Had Reynolds Metals been given a 3-percent interest rate, the company would have saved almost $4 million in interest payments.

[12] It was only after complaints by the Senate National Defense Investigating Committee and the Senate Small Business Committee, that a 3 percent interest rate was imposed on the Alcan loan—25 percent less than that required of Reynolds.

The Committee concluded with the following findings and recommendations as set forth on page 10 and 11 of its report: "Government loans made to Reynolds on terms less favorable than loans made to the Canadian company, should be renegotiated. It would seem to be indefensible for the Government to exact harsher terms from United States operators than those given to the newly created giant competitor across the border.

"I am informed that following the above recommendation, your company requested RFC to comply therewith but that no action was taken in this direction by RFC."

An extract from the report of the Senate Small Business Committee to which Mr. Ickes referred,[13] is attached as annex D. Further details regarding the discriminatory favoritism which the United States Government displayed in its dealings with Alcan—even to the extent of buying aluminum at 18.6 cents per pound when United States producers were selling identical aluminum, first at 15 cents and then at 14 cents per pound—will be found in appendix 16 of the report of the Surplus Property Board to the Congress, dated September 21, 1945, page 119, a copy of which is attached as annex E.

Indeed, the only wartime transaction between Reynolds Metals and any agency of the Government which might be regarded as comparable with the Alcan transaction, involved certain advances by Metals Reserve Corporation.[14] In 1942, Metals Reserve Corporation advanced a total of $1,250,000 to Reynolds Mining Corp., a subsidiary of Reynolds Metals, for the development of certain relatively low-grade bauxite deposits in the United States. Such development was undertaken pursuant to request by the Government.

Unlike the RFC, Metals Reserve advanced this money to Reynolds Mining at a 3 percent interest rate, the advances were repayable by deductions from the amounts invoiced on bauxite delivered to stockpile,[15] and there was a contract-termination provision, effective upon the ending of the war emergency. This contract-termination provision did become effective at the end of the war, like thousands of others, and as a result, an aggregate of $414,324.37 of the total advance was canceled.

An interesting aftermath of this arrangement with Metals Reserve is the fact that bauxite was sold to the Government for stockpile during the war thereunder at an average price of approximately $4.50 per ton. Reynolds has recently purchased bauxite from this Government stockpile at an average price of $6.85 per ton.[16]

D. REYNOLDS METALS' POSTWAR ASSUMPTION OF ADDITIONAL PRIMARY PRODUCTION RESPONSIBILITIES [17]

1. The postwar outlook for aluminum

In order to understand or evaluate transactions through which Reynolds Metals leased, and ultimately purchased, certain aluminum facilities from the Government following World War II, it is necessary to consider what the postwar outlook for aluminum then seemed to be. The record on this is abundant and clear.

The basic facts are set out in the report of the Surplus Property Board to the Congress respecting aluminum plants and facilities, dated September 21, 1945, as follows:

"The Government investment represents a major portion of the wartime capacity of the aluminum industry and extends into practically every field. Much of the capacity is uneconomical for postwar use by private enterprise but may have other disposal values, including standby service for the national defense" (p. 1).

* * * * * * *

"Although a small industry, aluminum is highly strategic. The maximum prewar tonnage of primary aluminum was reached in 1939 but was only a small fraction compared to copper production and less than 1 percent compared to steel output. During the war, primary aluminum capacity expanded 6 times, and employment in the entire aluminum industry increased from about 35,000 to 150,000" (p. 1).

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[13] Future of Light Metals, interim report of the Surplus War Property Subcommittee of the Special Senate Committee to Study Problems of American Small Business, pursuant to S. Res. 28, September 10, 1945, pp. 10–11.

[14] Details with respect to these advances are given in annex F, attached.

[15] Details in annex F, attached.

[16] Details in annex G, attached.

[17] Reference: Questionnaire annexed to letter from Chairman Yates to Mr. Richard Reynolds, Jr., dated July 25, 1955, question No. 2b.

"During the war, Alcoa expanded its capacity materially, and built and operated for the Government most of the Federal capacity. The Reynolds Metals Co. entered the industry as the only competitor in primary aluminum. Reynolds has serious problems of strengthening its postwar position in the matter of bauxite supply and economies in production costs. Alcoa is materially stronger than before the war, controls 84 percent of the privately owned primary capacity, and has the powerful competitive weapon of low-cost Canadian aluminum which it can move into world and domestic markets, despite the present United States tariff of 3 cents per pound. Alted [18] is now the largest producer in the world, and has the lowest production costs because of subsidized war expansion in which the United States participated with other Governments" (p. 2).

* * * * * * *

"Disposal of many plants is complicated by disadvantageous locations, capacities far in excess of immediate markets, and the need for changes in equipment. These handicaps may be remedied, where feasible, the RFC financing the costs of improvements. Also, terms of lease or sale should be adjusted to reflect actual earning power based on ability of a plant to compete" (p. 3).

* * * * * * *

"The maximum economical primary aluminum capacity of the country is about five times greater than 1939 markets and far in excess of immediate postwar markets. The total economical capacity is 1.5 billion pounds of which Alcoa holds 828 millions, Reynolds 162 millions, and the Government 512 millions. An additional 148 millions of Government capacity may become economical at a later date. Market studies indicate a possible requirement of 1 billion pounds of primary metal 5 years after the war, supplemented by 600 million pounds of secondary metal, provided the price of primary is 12 cents per pound and secondary ingot sells at 6 to 8 cents" (p. 3).

* * * * * * *

"Possibly 3 billion pounds of aluminum inventories may hang over postwar markets for a number of years, much of it subject to disposal policies of the Surplus Property Board. If released in too short a period, this supply would disrupt markets and force a substantial curtailment of primary production" (p. 4).

The Surplus Property Board also reported to Congress the contemporary views of Alcoa as follows:

"Alcoa already has 828 million pounds of economical aluminum capacity, able to produce at average costs not greater than the best Government plants could possibly achieve. But Alcoa is not now using all of its own capacity and has canceled power contracts this year to reduce its production still further. At the end of July, it had idle 240 million pounds of capacity and had canceled TVA and Bonneville power contracts equivalent to additional primary production of 150 million pounds per year. By the end of the year, Alcoa would then have roughly 390 million pounds of idle low-cost capacity. It has indicated that it expects markets for primary metal to require 5 years before the present private capacity would be necessary. Therefore, the Government plants would not be needed in the Alcoa corporate setup for at least that period. If Alted capacity were linked with Alcoa's, the period would be even longer" (p. 49).

At or about the same time, the Attorney General reported to Congress: [19]

"The 1947 production of primary aluminum is estimated at 891 million pounds, which would not require any of the Government capacity. Last year 50 Alcoa plants and sales managers convened to discuss postwar markets. Their consensus was that the demand for primary aluminum would be 866 million pounds. At that rate none but Alcoa's private capacity would be needed. They will be right as long as little or nothing is done about revamping the pattern of the industry.

"Alcoa's plans apparently do not include the prompt utilization of Government plants. Although some of these facilities have been completely idle since last summer, Alcoa recommended in March, during the Senate Small Business Committee hearings on postwar possibilities in light metals, that no program for the disposal of Government plants be adopted until some time after the peace treaty. Its general manager and vice president declared that the productive capacity of the privately owned and Government-owned aluminum plants will not be utilized as soon as peace is declared. 'Alcoa cannot tell and no living person can tell the

[18] Herein called Alcan.

[19] The Aluminum Industry. Letter from the Attorney General dated September 19, 1945 (1945), pp. 43-44.

length of time that will be required to develop postwar aluminum markets. A year after peace has been made, Congress and the industry will all be better able to gage the future; 2 years after peace they will be still better able to judge the future."

Of similar import is the fact that on November 21, 1945, shortly after the report of the Surplus Property Board was transmitted to Congress, the Olin interest, which had been operating a small DPC aluminum plant at Tacoma, Wash., on a management fee basis, decided to withdraw from the aluminum business, stating: "* * * The future of the commercial aluminum industry is too uncertain at this time to justify us to assume the enormous risks involved."

Mr. R. S. Reynolds, Sr., was the only qualified person then willing to express his faith in the immediate future of the civilian aluminum market. In February of 1945, Mr. Reynolds told the Senate Small Business Committee that "* * * the day may not be far distant when the United States will require several times as much aluminum a year as our peak war production."

This statement of confidence in the future [20] was consistent with the fact that as early as September 1944, Reynolds Metals had borrowed $11 million privately in order to assist it to finance reconversion to the civilian market. Reynolds also announced plans for a postwar expansion of its product lines and for the manufacture of new products. This was done despite the company's already heavy burden of debt, and the necessity that a civilian demand for Reynolds aluminum be created.

As in 1940, official Government circles tended to accept conservative forecasts, rather than the aggressive confidence of Reynolds. In its report to the Congress, the Surplus Property Board recommended a leasing policy under which, if it proved necessary, the Government would assume all the risks of operation for an initial period, just as it did under the wartime leases. Congress approved these recommendations after extensive joint hearings by three Senate committees.

2. The leasing and purchase of governmental facilities by Reynolds Metals—1946–49 [21]

Reynolds Metals' actions in the postwar period measured up to the expression of confidence by Mr. R. S. Reynolds, Sr. Although the Government had asked a very large number of companies to bid on the Government-built war aluminum plants,[22] only a very few responses were received. Reynolds Metals was the first to offer the Government guaranteed minimum rentals. It was also the first to consummate leases for some of these plants in January 1946. Every plant leased by Reynolds Metals was available to any other independent at the time on a competitive basis.

At the time these plants were leased to Reynolds and others, it was Government policy to dispose of these facilities to create integrated independent producers capable of competing against Alcoa. The Surplus Property Board, in its report of September 21, 1945, recommended that the Government ingot plants be offered to competitors of Alcoa and that Government fabricating plants be first offered to the operators of these ingot plants to enable them to integrate their business more favorably (pp. 51–52 of the report).

Pursuant to these policies, endorsed by Congress after extensive hearings, Government plants were leased to Reynolds and Kaiser, as well as to nonintegrated fabricators such as Harvey Machine Co. This clearly appears in the First Supplementary Report of the War Assets Administration to the Congress, dated February 12, 1947, in which it is stated (at p. 11):

"In considering prospective competitors of Alcoa, the policy was to select bidders having 'the organization, experience, and financial resources that afford the greatest prospects for successful survival and maximum production in industry.' The Reynolds Metals Co. and the Kaiser interests were, therefore, in some instances given preference over other bidders. The key plants in alumina production, aluminum reduction, and fabrication have been leased or sold to Reynolds or Permanente. Aside from Alcoa, Reynolds is the only integrated producer having previous experience and an established organization. Kaiser, while entering the aluminum industry for the first time, has an established organization which operates a large number of enterprises in the cement, shipbuilding, and steel industries.

[20] Which, it may be noted, was not indicative of a desire to drive a hard bargain by minimizing the value of Government-owned facilities.

[21] Reference: Questionnaire annexed to letter from Chairman Yates to Mr. Richard Reynolds, Jr. dated July 25, 1955—question No. 2b.

[22] Initially 227 telegrams were sent out in an effort to ascertain the companies which might be interested in the Government-owned facilities. See report of Surplus Property Board (1945), p. 47.

"Surplus plant disposals have strengthened Alcoa's competitors by enabling them more fully to integrate their operations, and by giving preference to companies which could make maximum use of facilities acquired. Thus, the leasing of the Baton Rouge alumina plant and the reduction and sheet mill at Spokane and the sale of the Tacoma reduction plant to Permanente will permit this company to establish a completely integrated aluminum operation from alumina to semifinished products. In the case of the very desirable Troutdale, Oreg., reduction plant, lease bids were received from Kaiser Cargo, Inc., Asarco Aluminum Corp. (a company controlled by the American Smelting & Refining Co.), and the Reynolds Metals Co. One reason for acceptance of the Reynolds offer was that Reynolds was the only 1 of the 3 bidders who contemplated making full use of all 4 potlines in the plant. But the principal factor in the decision to award the plant to Reynolds was the lack of sufficient metal-producing facilities to permit Reynolds to supply the needs of its owned and leased fabricating facilities. Reynolds operates fabricating facilities having an annual wartime capacity of over 250,000 tons while its primary metal capacity without Troutdale was only 115,000 tons. It was also felt that the lease of Troutdale to Reynolds would increase the rentals payable to the Government on the Hurricane Creek alumina plant, and on the fabricating plants leased to Reynolds, primarily the McCook sheet mill, and the Grand Rapids extrusion plants. Rentals of these plants are dependent upon production, and it appeared probable that the operation of the Troutdale plant would require greater production of alumina, and would afford more manufacture of fabricated products. For plants other than key facilities, this policy could not be applied because in most instances only one bid acceptable to the War Assets Administration was submitted."

Unquestionably it was Government policy to encourage integration of the independent producers in order to make them more effective competitors of Alcoa. Because Reynolds Metals was in the best position to further this Government policy, the disposal agencies considered it a highly desirable bidder.

In annex H, attached, we have set out the salient facts with respect to each governmental facility leased and purchased by Reynolds Metals in the period 1946–49. These facts may be summarized, as follows:

Reynolds Metals purchased from the Government shortly after the war the aluminum sheet mill at Sheffield, Ala., in which Reynolds-owned equipment costing $3,800,000 had been installed by agreement with the Government. This plant was purchased by Reynolds Metals at the estimated fair value placed on it by the Government—$7 million. Furthermore, while Reynolds Metals was operating this plant during the war, it had paid approximately $8,200,000 in cash rentals to the Government.

The alumina plant at Hurricane Creek, Ark.; Aluminum reduction plants at Jones Mills, Ark., and Troutdale, Oreg.; aluminum sheet and rolling mill at McCook, Ill.; and certain other plants were leased by Reynolds and with respect to these plants the company paid the Government approximately $15,800,000 in rent.

In 1949 Reynolds Metals Co. purchased from the General Services Administration five of these plants, at which time the General Services Administrator issued a press release, reading in part as follows:

"Sale of 4 aluminum plants and facilities and a sinter plant to the Reynolds Aluminum Co. for $50,081,958 was announced today by Jess Larson, Administrator of General Services. Reynolds has been operating the plants, constructed by the Government during World War II, under lease since early 1946, with options to buy.

"Properties included in the sale are:

"An alumina plant at Hurricane Creek, Ark.; aluminum reduction plants at Jones Mills, Ark., and Troutdale, Oreg.; an aluminum sheet and rolling mill at McCook, Ill.; and a sinter plant, which is used in connection with the Hurricane Creek alumina plant.

"Terms of the sale provide for a downpayment of 5 percent and a 4-percent promissory note for the balance of the purchase price, payable over a period of 25 years and secured by purchase money mortgages. Pursuant to the specifications and recommendations of the Munitions Board relative to strategic and critical materials and under authority of section 204 (e) of the Federal Property and Administrative Services Act of 1949, part payment may be made in aluminum, in lieu of cash.

"Payments of interest and principle by Reynolds over a period of 25 years will average over $3 million annually. Rear Adm. Paul L. Mather, liquidator of war assets in GSA, conducted the negotiations with Reynolds.

"'We estimate that over the 25-year period Reynolds will pay to the Government in principal and interest approximately $78 million,' Mr. Larson said, 'which considered together with the revenues which the Government has received from these properties, both during the war while they were being operated by the Aluminum Company of America and since the war on lease by Reynolds, reflects a total recovery of 95 to 100 percent of their wartime costs.'

"The original cost of the plants to the Government was more than $130 million.

"Mr. Larson pointed out that the sale is in accord with the policy of the Government to make final disposition of its interest in wartime industrial plants. At the same time, he said, the Government reserves, as to these aluminum plants and many other industrial plants sold as war surplus, the right of control and use in times of emergency under a national security clause prescribed by the Munitions Board."

In determining the sales price of these plants to Reynolds the Government followed the then-existing pattern determined in the previous sale of similar plants to Reynolds' competitors.

3. Reynolds Metals' purchase of aluminum from Government stockpile, 1946–48 [23]

When the impact of a general materials shortage was felt shortly after the war the Civilian Production Administration determined that the domestic economy required aluminum beyond the operative productive capacity of the industry. It thereupon received applications to purchase aluminum from Metals Reserve stockpile. The Civilian Production Administration analyzed these applications and made recommendations pursuant to which the Office of Metals Reserve in the Reconstruction Finance Corporation sold the aluminum during the years 1946–48.

All of this stockpile aluminum was purchased at market prices prevailing on the date of shipment. A provision of the sales contract provided that in the event the purchaser resold any of the pig or ingot as such, any excess over the price paid to the Office of Metals Reserve would be refunded.

During this period, 1946–48, Metals Reserve sold 112,500 tons to Alcoa; 42,500 tons to Reynolds; [24] and 23,500 tons to Kaiser.

The purchase of this stockpile aluminum by Reynolds Metals and the other producers benefited the largest group of nonintegrated fabricators. These fabricators, especially in 1946, were seeking aluminum sheets, rods and extrusions—as contrasted with ingots—to make a host of civilian products. Primary ingot was useless to most of them, since they used mill products, especially sheet. During the years 1946–48, with the help of this stockpile ingot to supplement its own production, Reynolds Metals was able to roll and ship to outside customers a total of 253,250 tons of sheet, as well as other mill products required by the nonintegrated fabricators.

E. KOREAN EMERGENCY EXPANSION PROGRAM [25]

1. The expansion program of 1950

In the fall of 1950, the Government instituted a major expansion of primary aluminum capacity for defense purposes. As early as July 1950, even before this determination by the Government that the country's aluminum productive capacity should be increased, Mr. Richard S. Reynolds, Jr., who was then president of Reynolds Metals, had written to Chairman Symington of the National Security Resources Board (now Senator Symington) expressing Reynolds Metals' willingness to expand production in the promotion of national security.[26]

On October 5, 1950, Chairman Symington announced to representatives of the 3 primary producers (Alcoa, Reynolds Metals and Kaiser) an overall expansion program of 1 million tons of additional primary aluminum capacity. As of that

[23] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Richard Raynolds, Jr., dated July 25, 1955, question No. 2 (*c*).

[24] Annual poundage and dollar value is set out in annex I, attached.

[25] Reference: Questionnaire forwarded under covering letter from Chairman Yates to Mr. Richard Reynolds, Jr., dated July 25, 1955, questions Nos. 2 (*b*) and 2 (*d*).

[26] Letter dated January 16, 1951, from W. Stuart Symington to Marion Caskie, executive vice president of Reynolds Metals Co.

At this time, too, Reynolds Metals and Alcoa were sharply at issue as to whether there was a need for expanded capacity. Examples of advertisements published by the two companies at this time are annexed as annex J.

date, total United States primary capacity was some 1,450 million pounds. This represented an increase of more than 300 percent over the primary capacity which had existed in 1939.

Reynolds Metals' response to this request was thus described by Mr. Symington:

"Following the determination by the Government that the country's capacity should be expanded, we called the producers and discussed the matter with them. When we asked for proposals to be filed October 16, 1950, your company promptly responded. The proposals were carefully reviewed by the Government and the several legal and financial problems which they raised were examined into with the assistance of the three companies. A general plan of action having been arrived at, we met with representatives of your company on the afternoon of November 20, 1950, and requested them to work out an agreement with the Government at the earliest possible moment, which they did by November 24—a matter of but a few days."

In view of the extraordinary nature of this emergency expansion program, and in order to facilitate private (rather than governmental) financing thereof, the Government offered the following inducements:

(*a*) At the first meeting with all producers, governmental representatives offered the right of accelerated amortization to cover 100 percent of the expansion facilities. Ultimately, however, Reynolds Metals was granted accelerated amortization certificates covering only 85 percent of one portion and 80 percent of the remainder of its Korean expansion facilities.

(*b*) It was the Government which also initiated the proposal that it guarantee in full the loans necessary to finance this expansion.[27] Actually, it did not prove necessary for Reynolds Metals to avail itself of this offer in order to carry out its original expansion undertaking. Instead, Reynolds Metals borrowed, on its own resources and credit, $85 million in order to build the plants and facilities desired by the Government. Subsequent to the initiation of this program, but before the new plants could be put into operation, the worsening international situation led the Government to call for a still further expansion in the country's aluminum production facilities. This new call required Reynolds Metals to borrow an additional $76,750,000 from private sources—making Reynolds Metals' total borrowing to meet the Government's aluminum expansion request approximately $162 million. This was a large sum, indeed, for a company to borrow for the purpose of meeting demands which were then considered to be defense and war requirements, rather than normal civilian demands. Accordingly, Reynolds Metals was required to avail itself of the expressed willingness of the Government to guarantee the full amount of this second loan. This full guaranty was applicable only during the period when the plants were under construction. Thereafter, for a period of 5 years, only 70 percent of the loan was guaranteed by the Government. At the expiration of the 5-year period, the amount remaining unpaid could, at the request of the lenders, be guaranteed 100 percent by the Government. These terms were not insisted upon by Reynolds Metals, but rather by the bank and insurance companies which extended credit.[28]

(*c*) The Government representatives also offered to enter into substantial supply contracts for aluminum. Such contracts were ultimately negotiated with respect to the Korean expansion facilities. These are described below.

The Korean expansion contracts entered into by Reynolds Metals, the manner in which they were financed, and the quantities of strategic and critical materials involved, were as follows:

[27] It should be noted that such a guaranty is an inducement to private lenders, but it does not protect the borrower, such as Reynolds Metals, which is required to carry all of the business risks of overexpansion.

[28] These loans were refunded as of July 28, 1955, and there is no longer any governmental guaranty outstanding.

Korean expansion contracts

Contract No.	Facility	Quantity	Private financing	Governmental advance, guaranty, or supply contract
GS-OOP(D)-12008	Expansion of Jones Mills and Troutdale primary production facilities and construction of new primary production facility at Corpus Christi, Tex.	[1] 200,000,000	$85,000,000	None; supply contract as described below.
GS-OOP(D)-12202	Expansion of Longview and Hurricane Creek primary production facilities.	[1] 40,000,000	None	$12,000,000 was advanced by the Government, which principal sum was repayable from invoice price of metal of 6 cents per pound. Interest of 4 percent per annum, which is payable upon contract termination in the form of metal.[2] Supply contract, as described below.
GS-OOP(D)-12214	Construction of La-Quinta and Patterson primary production facilities.	[1] 120,000,000	76,750,000	No advance. Government guaranteed this loan as stated in subpar. (*b*) above. Supply contract, as defined below.
SCM-TS-2220S-(ECA)	Development of bauxite deposits in Jamaica.	[3] 750,000	[4]	$14,287,000, under circumstances and upon conditions described in next section below.

[1] Pounds per year.
[2] Requested details respecting this advance are set out in annex K, attached.
[3] Tons per year.
[4] Approximately $3,000,000 invested by Reynolds Metals.

With respect to the making available by Reynolds Metals of the primary aluminum to be produced from this expanded capacity, these contracts (save of the one relating to bauxite) provided that—

(*a*) The Government has a call for stockpile or military purposes upon the total production from the Korean expansion facilities.

(*b*) For the first 5 years, whenever the Government's call for stockpile purposes is less than two-thirds of the total production from the contract facilities, minus certain military priorities, the difference between the "call" and the two-thirds must be offered to nonintegrated users as defined in the contract. Thereafter, for 15 years, one-fourth of the total metal produced in the contract facilities, minus certain military priorities, must be sold to such nonintegrated users.

(*c*) To the extent that the Government's calls for stockpile and certain military priorities, during the first 5 years, do not equal the total production of these contract facilities, and the producers are unable to dispose of their own noncontract facility production plus the balance, then the producer may "put" this balance to the Government and the Government agrees to purchase it. No "put" under this provision has yet been made by Reynolds Metals or any other producer.

2. Expanded bauxite production in Jamaica—ECA advance of $14,287,000 [29]

A development related to the 1950 Korean emergency expansion program, was a further expansion of bauxite mining activities by Reynolds Metals in Jamaica. In this, the company received financial assistance from Economic Cooperation Administration (ECA) funds.

It will be recalled that the Surplus Property Board, in its report to Congress in September 1945 (as quoted above at p. 17), had commented that one of Reynolds' primary difficulties in competing with Alcoa during the war arose from the fact that its bauxite costs were higher than those of Alcoa and the average available grade of Reynolds Metals bauxite was lower than the prewar Alcoa average. The Board went on to state that one of Reynolds Metals' primary problems in the postwar period would be that of "obtaining and converting bauxite at costs comparable to Alcoa's" (report, p. 24).

[29] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955, question No. 2.

Even at that time, the Board was able to report that Reynolds Metals had, on its own initiative, secured deposits of better grade bauxite in Jamaica and Haiti, and was "continuing the search for additional foreign reserves" (report, p. 31).

Reynolds Metals had thereby placed itself in a position where it was ready to take the next step at the time of the Korean emergency expansion program, which made large additional bauxite supplies essential. This was done through Reynolds Metals' subsidiary, Reynolds Jamaica Mines, Ltd. Such an expansion program would be of unusual benefit to the entire Jamaican economy and it was, therefore, a distinct advancement of the ECA program. For this purpose, therefore, Reynolds Metals was advanced a total of $14,287,033.18 by the ECA. This amount, with interest at the rate of 4 percent per annum, was made payable in aluminum.[30]

The outstanding feature of this transaction is the fact that the funds which the ECA advanced, and which Reynolds Metals will repay, with interest, by delivering a valuable strategic material, consisted principally of so-called counterpart funds, or foreign currency credits obtained by the United States through the operation of the ECA program. A basic objective in providing for such credits was to enable the United States to obtain strategic materials in the foreign country in which such credits accrued. Thus, the ECA advance to Reynolds Jamaica Mines, Ltd., was not only a contribution to the objectives of the ECA program, but it was also a means by which our Government was able to utilize counterpart funds in the manner originally intended.

In connection with this same expansion program, Reynolds Metals expended approximately $3 million additional from its own funds.

3. Purchase of bauxite and aluminum from Government reserves, 1950–55 [31]

Pending completion of the Korean expansion program, Reynolds Metals purchased bauxite and aluminum from Government reserves, during the years 1950–55. The details are shown in annex I, attached.

4. Governmental absorption of excessive power costs [32]

As early as 1945, the Surplus Property Board had noted in its report to Congress:

"Inflexible contracts for the sale of Federal power in the Tennessee Valley and Pacific Northwest result at times in high costs of power for aluminum production. This makes more difficult the disposal of Government plants, puts Reynolds at a disadvantage compared with Alcoa, and places all American producers at a disadvantage in competing with Canadian aluminum which is produced at subsidized power costs. It is, therefore, desirable that those who take over Government plants be in a position to negotiate more flexible power contracts. If the existing laws governing the rates on Federal power prevent the negotiation of power contracts of this kind, it is suggested that Congress may wish to consider, in the interest of national security, a modification of those laws so far as they relate to the use of power for the production of strategic and critical products essential to the national defense" (p. 3).

In 1951, there developed in the Tennessee Valley drought conditions which, coupled with the requirements of the Atomic Energy Commission, resulted in excessive costs for TVA power, assuming that Reynolds Metals was to continue to operate its Listerhill plant to capacity. Such costs could not be justified if the aluminum was to be sold in the competitive civilian market at the then prevailing market price. When Reynolds Metals advised the Government's defense agencies of this situation, such agencies requested Reynolds not to curtail its operations but to pay the excess power costs, with the understanding that the Government would take such aluminum at the prevailing market price, absorb at least a part of the excess power costs, and direct Reynolds Metals as to how the high cost of aluminum thus produced should be distributed. Reynolds Metals complied with this request by the Government.

When a similar power situation developed in the Pacific Northwest because of drought and other conditions, the same type of action was taken by the Government. At or about the same time, similar arrangements for the absorption of excess power costs were made by the Government with both Alcoa and Kaiser.

[30] Actually, $2,600,000 of the principal amount was advanced to finance the construction of an ore carrier and, upon completion, Tropical Steamship Co., Ltd., assumed liability for that amount. The details are set out in annex L, attached.

[31] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Richard S. Reynolds, Jr., dated July 25, 1955, question No. 2 (c).

[32] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955, question No. 6; Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 12, 1955, table VII, mill costs; Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated August 8, 1955.

The important features of these transactions, both TVA and Bonneville, are:

(*a*) Absorption of excess power costs was not granted exclusively to Reynolds Metals, but was made available to all producers.

(*b*) It was more economical for the Government and the economy to make such an arrangement, rather than to precipitate a general rise in the price for aluminum; and

(*c*) The additional aluminum secured through this reimbursement program would not have been produced, except for Government request.

Inquiry is made as to Reynolds Metals' unit costs for power in question 6 of the questionnaire annexed to Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955, and in Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated August 8, 1955. Furthermore, as is pointed out in said letter dated August 8, 1955, the unit cost of power is a highly important factor in Reynolds Metals' mill costs for aluminum, a subject which is dealt with in table VII of Judge Knox's opinion of June 2, 1950 (and is also referred to in Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated August 12, 1955).

The unit cost of power for an integrated producer such as Reynolds Metals is universally regarded as a highly confidential trade secret. In view of the very substantial competitive injury to Reynolds Metals which might result from the disclosure of such information, Reynolds Metals requests to be excused from disclosing its unit costs of power and its mill costs.

F. REYNOLDS METALS CO. AS OF DECEMBER 31, 1954, AND TODAY [33]

As of December 31, 1954, the total assets of the Reynolds Metals Co., before depreciation, were $533,751,065. As of the same date, the company's common stock and surplus—or its common stockholders' equity—was $126,872,909.[34]

After 1939, under the circumstances outlined above, Reynolds Metals became a fully integrated producer of aluminum and aluminum products. In order to do this, the company was required to borrow a total of over $287 million (exclusive of refunding operations) from private sources. During this same period, Reynolds Metals obtained fully secured loans totaling $46 million and cash advances of $27,537,033.18, from the United States Government. The aggregate of Government loans and advances was $73,537,033.18.[35] This entire amount was repayable with interest at the rate of 4 percent per annum, save for $1,250,000 which had been borrowed at 3 percent interest during the war.

At the end of 1954, the total amount of plant and equipment carried on Reynolds Metals' books was $369,112,174 before depreciation, and of this total $66,093,170 had been purchased from the United States Government and was recorded on the company's books in this amount at the time of acquisition.[36]

Pursuant to the terms of the agreements under which these facilities were purchased, the Government can, upon request of the Secretary of Defense, instruct that up to 50 percent of such operable capacity be devoted to the purposes of national defense. This so-called security clause is a contingency which seriously affects the value of these facilities in the hands of Reynolds Metals and limits the company's advance planning for civilian markets. For example, the Government can accomplish such a retaking even in the absence of the imposition of general controls and priorities, merely upon certification by the Secretary of Defense that the facilities designated are needed for national defense. Through

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[33] Reference: Questionnaire forwarded under covering letter from Chairman Yates to Mr. Richard Reynolds, Jr., dated July 25, 1955—Questions Nos. 1 and 2.

[34] Annex L–1, attached, shows for the years 1939–54, inclusive, and for the first 6 months of 1955, Reynolds Metals' (1) net sales; (2) profit before taxes; (3) net profit; (4) net worth at end of period; and (5) cash dividends. This information includes that requested in Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 12, 1955, with respect to tables VIII and IX contained in Judge Knox's opinion dated June 2, 1950.

[35] These totals are made up as shown in annex M, attached.

[36] Reynolds Metals' books do not contain valuations for property presently leased from or owned by the U. S. Government (which valuations appear to be requested by question No. 2b (2) (b) of the questionnaire annexed to Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955). There is attached as annex N a statement of the facts known to Reynolds Metals with respect to certain Government-owned facilities operated by the company or in the process of installation.

The question of what maximum part of the total price of plants and equipment purchased from the U. S Government by Reynolds Metals, which might theoretically be repaid by settlement in aluminum or other materials (as requested in question No. 2b (4) of the questionnaire annexed to Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955) is exceedingly complex and one on which Reynolds Metals is not prepared to express an opinion. The theoretical maximums contained in the contract provisions governing the purchase of these plants and equipment would have to be modified in practice by (1) the amount owing at a particular time; (2) Reynolds' other obligations then due and owing, which might limit the amounts which could be applied for this purpose; and (3) other practical considerations, such as the amount of metal designated as acceptable by the Munitions Board, pursuant to section 204 (e) of Public Law 152, 81st Cong. The fact was that the total dollar value of aluminum actually tendered by Reynolds Metals to the Government in payment for plants and equipment aggregated $3,320,250.

Information is not available to enable Reynolds Metals Co. to answer questions Nos. 4 and 5 of the questionnaire annexed to Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955.

the operation of these clauses, therefore, the Government was able to dispose of these facilities, and yet, to retain a measure of control over their use.

Despite the magnitude of the Government's wartime and emergency aluminum expansion programs, only one-third, approximately of Reynolds Metals' primary aluminum capacity, as of June 30, 1955, was represented by original capacity of plants and facilities purchased from the United States Government. When Reynolds Metals' recently announced expansion program is completed, the percentage of the company's total primary aluminum capacity represented by the plants and facilities purchased from the United States Government will be approximately one-fourth of the total.

Since 1939, the total amount of tax amortization certificates (authorized amount) received by Reynolds Metals was $190,056,013 as of December 31, 1954, and an estimated additional $3,000,000 of such certificates had been granted to apply to plant and facilities not on Reynolds Metals' books as of December 31, 1954.

On July 28, 1955, Reynolds Metals paid in full the outstanding principal balances on certain purchase money mortgage notes which had been issued as a part of the purchase price of plants and equipment acquired from the United States Government. As of that date, the Government had received from Reynolds Metals as direct and indirect payments on account of Government loans, cash advances, and plants sold to Reynolds Metals, the amounts set out in the following tabulation:

Payments to United States Government by Reynolds Metals

	Directly, on notes given for purchase price of plants	Directly, on on loans and cash advances	Indirectly
Principal	$65,478,973	$62,465,675	
Interest	11,783,958	18,008,135	
Rental of leased plants			$24,063,108
Payments for power			86,602,000
Federal income taxes			115,422,876
Remaining principal to be paid		10,657,033	
Remaining interest to be paid		1,377,168	

As of June 30, 1955, the figures respecting the annual production capacity of Reynolds Metals in the various categories referred to in question No. 3 of the questionnaire annexed to Chairman Yates' letter to Mr. Richard Reynolds, Jr., dated July 25, 1955, were as follows:

Annual production capacity

	June 30, 1955	Original capacity in plants and facilities purchased from the United States Government [1] (1)			Capacity in facilities leased from United States Government as of June 30, 1955 (2)
Bauxite tons	2,000,000				
Alumina do	1,095,000	665,000			
Primary aluminum pounds	829,000,000	288,000,000	Jones Mills	144,000,000	
			Troutdale	144,000,000	
Sheet do	564,000,000	468,000,000	McCook	288,000,000	
			Reynolds Alloys	180,000,000	
Foil-rolling do	78,000,000				
Powder do	18,000,000				
Extrusions do	90,000,000	77,500,000	Phoenix	66,700,000	[2] 3,000,000
			Grand Rapids	10,800,000	
Wire, rod, and bar do	84,000,000	60,000,000	Reynolds Alloys		
Cable do	50,000,000				

[1] Original capacities are those given for each plant as recorded in the report of the Surplus Property Board to the Congress dated Sept. 21, 1945, with the following exceptions:
(a) Alumina capacity shown is based on use of Reynolds bauxite. Alcoa had established a wartime rated capacity using its bauxite of 777,500 tons.
(b) Surplus Property Board report given annual capacity of Reynolds Alloys Co. as 170 million pounds sheet and 120 million pounds structural mill shapes. Reynolds considered original capacity of this plant as 180 million pounds sheet and 60 million pounds structural mill shapes.
(c) Surplus Property Board report gives annual capacity of Phoenix extrusion plant as 66.7 million pounds. Reynolds considered original capacity as 64 million pounds.

[2] Grand Rapids.

When the recently announced expansion program is completed, Reynolds Metals' primary aluminum capacity will be increased by 270 million pounds. The most important fact of all is that every pound of this capacity is and will continue to be available for the national defense of the United States.

PART III. REYNOLDS METALS CO.'S POSTWAR SUPPLY AND DISTRIBUTION OF ALUMINUM [37]

A. REYNOLDS METALS IS A FULLY INTEGRATED PRODUCER OF ALUMINUM AND ALUMINUM PRODUCTS

1. Reynolds did not become a wholly integrated producer, fully competitive with Alcoa, until the time of the Korean expansion program

One highly important point with respect to the development of Reynolds Metals [38] is that this company was not fully integrated—in the sense that it was able regularly to offer primary pig in excess of the requirements of its fabricating facilities—until the Korean expansion program. While the company did make sales of primary pig before that time, they were occasional in nature and very much smaller in volume than such sales have since become.

The relevant facts with respect to the pre-Korean situation are set out accurately in Progress Report No. 24 of the Joint Committee on Defense Production (82d Cong., 2d sess. (1953), pages 15–18, which is attached as Annex O.

In summary, it is there demonstrated, with appropriate citations to, and quotations from, the public record, that—

(*a*) It has been a declared objective of the United States Government to foster integrated competition in the aluminum field.

(1) This objective had the approval of the Department of Justice in 1945, at which time the Department stated that Reynolds Metals was handicapped among other things by unbalanced capacity with only 35 percent of its fabricating capacity fully integrated back to the ore. The Attorney General stated that if Reynolds Metals succeeded in leasing and ultimately purchasing certain DPC alumina, ingot, and fabricating facilities, "that company's status as a competitive producer will be improved considerably."

(2) The Government plant disposal agencies after World War II also advocated integrated competition for Alcoa. In its report of September 21, 1945, the Surplus Property Board's "recommended competitive program" had as its principal points:

"1. First priority to buy the Government alumina and aluminum producing plants be given to competitors of Alcoa (p. 50).

"2. Government fabricating plants be offered first to any operators of Government reduction plants in order to enable them to integrate their business more favorably" (p. 52).

The War Assets Administration, in its report (p. 11), commented that "Surplus plant disposals have strengthened Alcoa's competitors by enabling them more fully to integrate their operations."

(3) These policies were, by statute, subject to the approval of Congress and after investigations and hearings conducted by three Senate committees, said policies received the full endorsement of the legislative branch.

(4) The Federal courts—through the late Judge Knox—have also expressed themselves on the importance of integration as a basic tool for shaping a competitive aluminum industry.

We are not aware of any reversal of this impressively endorsed national policy, which Reynolds Metals believes to be in the public interest and sound. It is an inevitable corollary of this policy that an integrated competitor be permitted to compete on an integrated basis. Certainly, prior to Korea, any diversion of primary pig produced by Reynolds Metals to outside users would have weakened Reynolds Metals as an integrated competitor of Alcoa and would have tended to defeat the foundation upon which the postwar disposal program was established and approved by all three branches of the Federal Government. The same is true, after Korea, to the extent that such diversion interferes with Reynolds Metals' operations as fully integrated producer.

During the negotiations with Reynolds Metals concerning the new capacity proposed to meet the Korean emergency, representatives of the Government raised the question of having Reynolds Metals, in addition to its operation as any integrated competitor of Alcoa, supply pig or ingot to nonintegrated fabricators.

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[37] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955, as supplemented and amended by letters of July 12, 15, 18, and August 8, 1955.

[38] One that seems to be constantly overlooked in discussions of present-day aluminum supply and distribution.

This was the first time that this question had been put to Reynolds in connection with the lease, purchase, or construction of any producing facilities. Since the Korean expansion program was devoted entirely to producing facilities, it did prove to be feasible for Reynolds to make commitments to supply limited quantities of pig and ingot without undermining its position as a competitive source of aluminum mill products.

This commitment was made an integral part of the contracts entered into at that time, and has been fully and faithfully observed since it became effective in January 1951, as will be demonstrated below.

It should be further noted, however, that the commitment which Reynolds Metals undertook with respect to the output of additional facilities created during the Korean emergency was limited by its terms to the estimated capacity of these new facilities. Thus, for example, as provided in article III (d) of Contract No. GS–OOP(D)–12214, between the Government and Reynolds Metals and Reynolds Reduction Co., executed as of October 11, 1951, in order to facilitate, the production by Reynolds of an additional 300,000 short tons of primary pig it was provided:

"(d) In no event, except as provided in Article VII and Article IX,[39] shall the Government be obligated to order or to purchase, or Contractor be obligated to accept orders from either the Government or nonintegrated users for an amount of aluminum which, added to the prior production and sale or utilization by Contractor of aluminum from the additional aluminum reduction facilities after the date of completion of the additional facilities, exceeds Three Hundred Thousand (300,000) short tons" (p. 9).

2. Reynolds Metals has welcomed and assisted prospective new integrated producers

Reynolds Metals not only created competition in the aluminum field by entering upon primary production in 1940, but also has squarely placed itself on record as welcoming and assisting prospective new integrated producers. Thus, in testifying before the Celler committee in 1951,[40] Mr. Richard Reynolds, Jr., President of Reynolds Metals, stated:

"The CHAIRMAN. Will any of the new producers, for example, Harvey and Apex, be able to get their bauxite from Alcoa?

"Mr. REYNOLDS. We have offered Apex a deal to furnish them alumina at a very reasonable price. That is an arrangement made to give them alumina for a period of years, which they could cancel if and when they find their own ore or develop an aluminum plant. We made that offer to them.

"The CHAIRMAN. Will that offer also be open to any additional producers?

"Mr. REYNOLDS. It depends on how much. We can only do a certain amount of that, and we will do all we can; but so far we have only offered it to Apex, which is about all that we could supply from our reserves.

"However, I would be willing to do that to help them, or help get another independent into business.

"Mr. MCCULLOCH. The price which you have offered to furnish this bauxite compares favorably with the price of bauxite as sold by Alcoa?

"Mr. REYNOLDS. Oh, it would be cheaper, I think. Otherwise I do not think Apex would take it, but we have offered them a very favorable price on alumina. We go one step past the bauxite. We have offered them the alumina at a very favorable price that would make them competitive."

In 1952, after it appeared that Apex would not enter the aluminum production field, Reynolds Metals entered into a contract with the Harvey Machine Co., Inc., of Montana, to supply that company with alumina. The company's name was thereafter changed to Anaconda Aluminum Co.

B. REYNOLDS METALS HAS FULFILLED ALL OF ITS LEGAL AND MORAL OBLIGATIONS TO NONINTEGRATED USERS OF ALUMINUM

As a fully integrated producer of aluminum, Reynolds Metals has an obligation to deal fairly with all of its customers. For the most part, such customers are nonintegrated fabricators of aluminum products, whose operations fall into different and distinct categories.

[39] Neither of the articles here referred to increases Reynolds Metals' obligation beyond the capacity of the new facilities. Each deals with the situation after the first 5 years, when Reynolds Metals must reserve 25 percent for nonintegrated users for a period of 15 years, rather than the amount specified for the first 5 years.

[40] See hearings before the Subcommittee on Monopoly Power of the Committee on the Judiciary, House of Representatives, 82d Cong., 1st sess., 1951, pt. 1, pp. 115–116.

1. The different categories of nonintegrated producers

One of the questions considered in Progress Report No. 24 of the Joint Committee on Defense Production, 82d Congress, 2d session (1953), was thus stated by the committee:

"Of particular significance in appraising the development of competition in the aluminum industry is the extent to which the nonintegrated fabricator has had access to the Nation's aluminum supply. Because all producers are integrated, they fabricate as well as produce aluminum and also manufacture some finished products or end items. The question has been raised as to whether the activities of these producers, as fabricators and finished product manufacturers, absorb so much of their primary production as to deprive the nonintegrated fabricators and manufacturers of an adequate raw material supply" (p. 7).

In order to consider that question intelligently, the committee found it necessary to examine into the categories into which such nonintegrated fabricators were divided and the numbers in each category. The result was set out in the joint committee's report (pp. 7–8):

"Since the end of World War II many discussions of aluminum supply have referred to the existence of '17,000 nonintegrated fabricators.' Actually that figure includes two distinct groups:

"(1) Prime product fabricators.

"(2) Finished product or end-item manufacturers.

"(*a*) The prime product fabricators buy ingot or semifabricated stock to make sheet, foil, wire, cable, extrusions, forgings and castings for sale to the end item manufacturers. Aside from the castings foundries, which are a special problem because most of them ordinarily use secondary rather than primary aluminum, there are only 133 fabricators in this category, less than 1 percent of that 17,000 fabricator group total (see appendix table 1). It is this group of 133 fabricators plus a relatively small number of foundries which rely on integrated primary producers for their regular raw material supply and compete in some cases with one or more of the integrated producers in the sale of their products.

"(*b*) The finished product or end-item manufacturers make up the overwhelming majority of that 17,000 fabricator group. These manufacturers use as their principal raw material fabricated aluminum made and sold by both the integrated producers and the nonintegrated prime product fabricators described above. These manufacturers constitute the largest class of customers of both the integrated producers and the nonintegrated prime fabricators. For the most part there is no competition between this group of manufacturers and the integrated producers. Only to the extent that the integrated producer manufactures end items, finished aluminum components or articles requiring no further processing, does he compete with any of the manufacturers in this group. Less than 7 percent of the shipments by the integrated producers are in the finished-product category which could be competitive with some of the products turned out by the manufacturers of end items (see appendix table 2)."

Since the joint committee reported in 1953, there have been undoubtedly changes in the number of fabricators engaged in prime-product fabrication, as distinguished from finished products or end-item manufacture, but the relative size of the two groups remains substantially unchanged.

It follows that nonintegrated producers who rely upon primary pig or ingot as their primary raw material constitute a small minority of the nonintegrated users of aluminum. When we further limit our definition to cover only those users of primary pig or ingot who are engaged exclusively in extrusion operations, we find that they are a very small minority indeed. The best recent estimate of their number is only 106 out of a total believed to be in the order of 25,000 nonintegrated users.

2. The sources of Reynolds Metals' supply of aluminum, 1946 through the first 6 months of 1955 [41]

The sources of Reynolds Metals' supply of aluminum, annually for the years 1946–54, inclusive, and monthly for the first 6 months of 1955, are shown in annex P, attached.

One notable feature of this tabulation is the extent to which, in 1946, Reynolds Metals was forced to rely upon purchased from Alcoa, from Alcan, and from the Government's wartime surpluses, in order to supplement its inadequate production of primary pig. As of that date, certainly, Reynolds Metals could not have been regarded as a fully integrated producer and competitor.

[41] Reference: Interrogatory annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955.

Another notable feature of the tabulation is the fact that Reynolds Metals' production of primary metal in 1954 was 431 percent of that which it produced in 1946 and if 1955 production continues at the rate established during the first 6 months, its production of primary metal in 1955 will be 446 percent of that produced in 1946.

It has been impossible to give the details requested with respect to tolling and conversion operations, since Reynolds Metals' operating records do not contain this information in the detail in which it was requested. Reynolds Metals' receipt of toll and conversion metal, however, is inconsequential compared with its total receipts of metal.

As a matter of fact, Reynolds Metals very seldom engaged in true tolling or conversion operations. Its much more customary practice—and an indication of the extent thereof—is indicated in the column of annex P, which shows purchases of primary metal from domestic producers other than the primary producers. For the most part, these purchases of primary metal by Reynolds Metals were offset by sales of semifabricated or fabricated forms of aluminum, made by Reynolds Metals to the vendors of such primary metal. These are not tolling operations, because the primary metal was purchased outright by Reynolds Metals at the current price effective at the time, and Reynolds Metals sold the semifabricated or fabricated forms of aluminum to the vendors of such primary metal, at Reynolds Metals' then effective prices for the same. No tolling charge was involved.

The inconsequential nature of these transactions, in the light of Reynolds Metals' total metal supply, is indicated by the fact that the largest figure in this column, for the year 1953, is 16.9 million pounds, a year in which Reynolds Metals' total supply of aluminum was 788 million pounds.

3. Reynolds Metals' distribution of aluminum, through the first 6 months of 1955.[42]

The distribution of Reynolds Metals' total supply of aluminum, annually for the years 1946–54, inclusive, and monthly for the first 6 months of 1955, is shown on annex Q, attached, which covers the categories specified in question 2 of the questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955.

Reynolds Metals has not engaged in the practice of selling primary aluminum and then, without shipping the same from its plants, tolling or converting such primary aluminum for its pig, ingot, or billet customers. Nor has Reynolds Metals engaged in the practice of selling semifabricated aluminum beyond the pig, ingot, or billet stage and then, prior to the shipment of the same from its plants, tolling or converting such material for domestic customers. Accordingly, Reynolds Metals' responses to questions Nos. 2 (c) and (d) of the questionnaire annexed to Chairman Yates' letter to Mr. Caskie dated July 11, 1955, is "None." Also, in view of the above, no exclusions have been made in the responses to questions Nos. 2 (a) and (b) of said questionnaire. As far as this company can ascertain, all metal accepted by it for tolling or conversion originated with a competitive producer or from scrap.

Moreover, the aggregate of the various categories of distribution, as set out in annex Q, does not equal the total supply for each year and each month, as set out in annex P. This is because of losses of metal (melt and dross loss) and changes of inventories at plants and warehouses. Reynolds Metals' operating records do not permit us accurately to reconcile these figures.

4. Reynolds Metals has more than lived up to its legal and moral obligations to supply nonintegrated users of aluminum

It is apparent from a comparison of columns (a) and (b) of annex Q that Reynolds Metals' sales of primary aluminum to nonintegrated producers have greatly increased since 1946. Even prior to the Korean emergency which began in 1950, there had been a notable increase in the relatively small, occasional sales of such aluminum by Reynolds Metals Co. Beginning in 1950, very substantial amounts are involved and they, too, increased greatly each year, save for 1954, which, for the most part, was a year in which supply exceeded demand. The decrease in this category in 1954 was less than the decrease in the amount of Reynolds' production processed in Reynolds' fabricating plants. On the basis of experience during the first 6 months of 1955, such sales by Reynolds Metals during 1955 are estimated at 179.6 million pounds, as compared with 67 million pounds in 1950 (a 168 percent increase over 1950).

[42] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955, questions Nos. 2–6, inclusive, as amended and supplemented by letters of July 12, 15, 18, and August 8, 1955.

Moreover, the percentage increase in sales of primary aluminum to nonintegrated users (col. (b) of annex Q) is very much greater than the percentage increase (or decrease) in the amount of metal processed in Reynolds Metals' fabricating plants or added to fabricating plant inventories (col. (a) of annex Q). Thus, the annual percentage increase (or decrease) in each of these categories for the years 1950–55, inclusive (using first 6 months figures for 1955 as the basis of an estimate of year end results) was as follows:

Year	Processed in Reynolds Metals' fabricating plants or added to fabricating plant inventories—annual percentage increase	Sold as primary metal to domestic nonintegrated users—annual percentage increase
1950	16	130
1951	10	15
1952	14	55
1953	14	19
1954	[1] 16	[1] 5
1955	20	33

[1] Decrease.

In annex R, attached, is set out Reynolds Metals' response to question No. 1 of Chairman Yates' letter to Mr. Caskie, dated July 15, 1955, inquiring with respect to Reynolds Metals' obligations under the Korean expansion contracts between General Services Administration and Reynolds Metals Co., providing for tenders of primary metal to nonintegrated users. In order to put these figures in context, we have added columns (e) and (f). Column (e) corresponds to column (b) of annex A and it shows, for the periods of time considered in annex R, Reynolds Metals' actual sales of primary aluminum to domestic nonintegrated users. Column (f) of annex R shows, for the periods dealt with in annex R, the amount of primary metal produced by Reynolds which was processed in Reynolds Metals' fabricating plants or added to fabricating plant inventories.

Consideration of annex R will demonstrate conclusively that at all times Reynolds Metals' shipments of primary metal to nonintegrated users have far exceeded the amounts of such metal which it was obligated to tender under the contracts with GSA. Moreover, it also appears on the face of annex R that the percentage rate of increase of Reynolds Metals' shipments of such primary metal to nonintegrated users has consistently been greater than the amount of Reynolds Metals' production retained by it for processing and delivery to nonintegrated users who do not rely upon primary pig, ingot, or billet as their source of raw material.[43]

Insofar as Reynolds Metals may be said to have a moral obligation to supply aluminum to nonintegrated users thereof, this company believes that such obligation exists with respect to all categories of nonintegrated users. Due regard must be given to the number of users in each category; to the amount used (which also relates to the number of end users affected); to the defense or nondefense character of the nonintegrated users involved; and, to some reasonable extent, to the historical pattern of use by such nonintegrated users. We recognize the desirability that nonintegrated producers and fabricators secure sufficient aluminum to enable them to grow, but we do not believe that this is applicable exclusively to any single category of nonintegrated users. Reynolds Metals does, as it must, recognize its obligation to deal fairly and equitably with all classes of its customers.

It is plain from the foregoing that this has been done by Reynolds Metals Co.

5. Competition between Reynolds and nonintegrated producers

The extent to which the aluminum and aluminum products sold by Reynolds Metals and thereafter reprocessed or resold by others become competitive with Reynolds Metals' own sales is a highly complex question, with respect to which this company is unable and unwilling to conjecture. There is attached, as annex S, the information requested with respect to "reroll sheet" and the other categories referred to in subparagraph (*a*) of question No. 2—"Supplement to revised table

[43] In annex R–1, attached, there is contained the information requested in question No. 2 of Chairman Yates' letter to Mr. Caskie dated July 15, 1955.

2," as annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955.[44] This information covers only the period 1953 through the first 6 months of 1955, because Reynolds Metals' operating records prior to 1953 do not permit of an accurate delimitation of these categories.

In response to subparagraph (*b*) of said question, Reynolds Metals does not regard all of this metal as moving into channels that later compete with Reynolds Metals and some of it is undoubtedly semifabricated in shapes, dimensions or products which Reynolds Metals does not make.

Reynolds Metals is unable to give actual or estimated figures in response to subparagraph (*c*) under said question. The only generalities justified by the facts known to Reynolds Metals are as follows:

(*a*) Reynolds Metals' customers make and sell products which are noncompetitive with the sales activities of Reynolds Metals, as well as products which are competitive therewith.

(*b*) Reynolds Metals is not informed as to the relative volume of the products sold by it which do or do not become competitive.

(*c*) Reynolds Metals' determinations as to whether it will accept an order placed by a particular customer, and as to terms of sale, are made without regard to whether the subject of such sale will or will not ultimately become competitive with the sales activities of Reynolds Metals.

6. Reynolds Metals' prices [45]

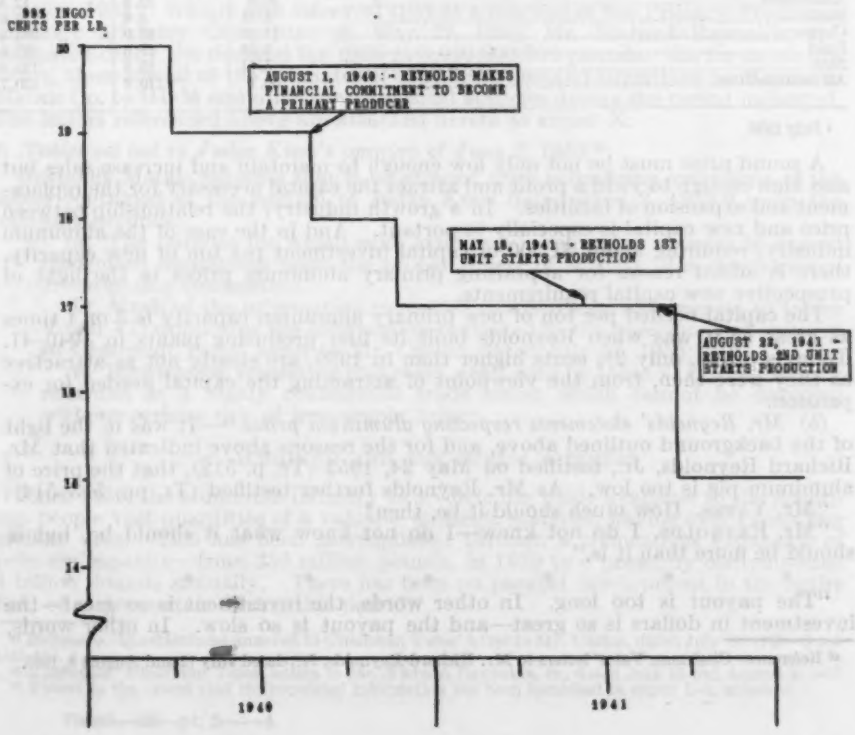
In order to place in context the questions relating to Reynolds Metals' prices, it is necessary briefly to review the history of aluminum prices.

(*a*) *Aluminum prices.*—Reynolds Metals made its decision to become a primary producer and built its initial producing plants during the early years of World War II when, despite rapidly rising costs, there was a drastic drop in the base price of aluminum:

[44] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955, Question No. 2—"Supplement to revised table 2."

[45] Questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955—Question No. 3; and Chairman Yates' letter to Mr. Richard S. Reynolds, Jr., dated July 18, 1955.

PRIMARY ALUMINUM PRICES



As the preceding chart shows, there was a 25 percent drop in the base price, 20 cents to 15 cents, during 1940 and 1941 when Reynolds was making its start as a primary producer. And a year later the base price came down to 14 cents a pound when 99 percent plus pig became commercially available. This 14-cent base price remained constant to the end of World War II, beyond the end of OPA controls (on November 8, 1946) and did not change until June 1948.

No other major metal showed a comparable drop in price during those war years. A comparison of prices just before the war, in 1939, and at the close of the war, in 1945, shows the following contrast:

World War II metal prices

[Cents per pound]

	1939	1945	Down (−) up (+)
	Cents	*Cents*	*Percent*
Aluminum	20	14	−30
Steel	1.51	1.57	+4
Copper	11.07	11.87	+7
Lead	5.05	6.50	+29
Zinc	5.51	8.65	+57
All commodities (U. S. Bureau of Labor Statistics Index)	50.1	68.8	+37

Since the end of World War II and price controls, the general commodity price level has risen sharply, but aluminum prices rose less than most of the other major metals. As the following comparison shows, aluminum has retained its favorable price relationship to other metals, established during the 1940–41 period:

	Price changes		Percent increase
	1939	August 1955	
	Cents	*Cents*	
Aluminum	20.0	22.5	12.5
Steel	1.51	3.4	126.6
Copper	11.07	43.0	288.4
Lead	5.05	15.0	197.0
Zinc	5.51	13.0	135.9
All commodities	50.1	[1] 110.6	120.7

[1] July 1955.

A sound price must be not only low enough to maintain and increase sales but also high enough to yield a profit and attract the capital necessary for the replacement and expansion of facilities. In a growth industry, the relationship between price and new capital is especially important. And in the case of the aluminum industry, requiring about $1,500 of capital investment per ton of new capacity, there is added reason for appraising primary aluminum prices in the light of prospective new capital requirements.

The capital needed per ton of new primary aluminum capacity is 3 or 4 times as great as it was when Reynolds built its first producing plants in 1940–41. Today's prices, only 2½ cents higher than in 1939, are clearly not as attractive as they were then, from the viewpoint of attracting the capital needed for expansion.

(*b*) *Mr. Reynolds' statements respecting aluminum prices.*[46]—It was in the light of the background outlined above, and for the reasons above indicated that Mr. Richard Reynolds, Jr., testified on May 24, 1955 (Tr. p. 512), that the price of aluminum pig is too low. As Mr. Reynolds further testified (Tr. pp. 513–514):

"Mr. YATES. How much should it be, then?

"Mr. REYNOLDS. I do not know—I do not know what it should be, but it should be more than it is."

* * * * * * *

"The payout is too long. In other words, the investment is so great—the investment in dollars is so great—and the payout is so slow. In other words,

[46] Reference: Chairman Yates' letters to Mr. Richard Reynolds, Jr., dated July 12 and August 8, 1955.

the amount of money that they can make on the aluminum that they can invest in other things is much better, and they can make a bigger return."

There is attached as annex T a copy of the brief submitted by Reynolds Metals in 1952 when it requested an increase in the price of aluminum. The reasons which Mr. Reynolds gave to Dr. Steelman when he urged that the price should be increased were, in substance, those set out in the attached brief.

(c) *Reynolds Metals' prices.*[47]—The information with respect to Reynolds Metals' prices, and changes therein, from January 1, 1949, to June 30, 1955, as requested in question No. 3 (a) of the questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955, is set out in annex U, attached. Neither reroll slab nor tube blooms were offered on a standard basis during this period and these items have now been discontinued. The information respecting tolling charges, as requested in question No. 3 (b) of the questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955, is contained in annex V, attached. As will be appreciated from the foregoing discussion, these prices are applicable to only an inconsequential portion of Reynolds Metals' shipments. Reynolds Metals is unable to furnish base prices covering purchases of new aluminum scrap for this period (as requested in said question No. 3 (b)), because the company does not purchase this commodity on any regular base price system. Since Reynolds Metals is not consistently active in the aluminum scrap market, virtually all of its purchases of aluminum scrap are made by individual negotiations.

There is also attached as annex W a copy of the press release issued by Reynolds in 1955 in connection with an increase in the price of aluminum.

In question No. 4 of the questionnaire annexed to Chairman Yates' letter to Mr. Caskie dated July 11, 1955, a request was made for all estimates of aluminum demand given by Reynolds Metals to the Office of Defense Mobilization and any other Federal agencies since June 30, 1953. On the basis of a careful search and inquiry, we attach a copy of a letter from Mr. Maxwell Caskie, Jr., to Dr. George Perkins, Director, Aluminum and Magnesium Division, Business and Defense Services Administration, dated September 10, 1954, and a letter from Mr. A. A. Snow, Assistant Director, Aluminum and Magnesium Division, Business and Defense Services Administration, to Mr. Maxwell Caskie, Jr., dated February 17, 1955. As you will note, these letters refer to certain estimates of aluminum demand or consumption given by Reynolds Metals Co., one of which was prior to June 30, 1953. We are also informed that at a meeting of the Primary Producers Industry Advisory Committee on May 23, 1955, Mr. Richard Reynolds, Jr., estimated orally the demand for 1955 at 3,900,000,000 pounds. So far as we are aware, these are all of the estimates of aluminum demand submitted by Reynolds Metals Co. to ODM and other governmental agencies during the period indicated. The letters referenced above are attached hereto as annex X.

7. Tables set out in Judge Knox's opinion of June 2, 1950[48]

Reynolds Metals requests that it be excused from submitting extensions of the tables contained in the opinion of Judge Knox dated June 2, 1950,[49] upon the following grounds:

(a) The purpose for which such extension is requested appears to exceed recognized limitations upon the proper sphere of activity of a congressional investigating committee;

(b) Much of the information requested (particularly with respect to tables V and VI) duplicates the information requested in the questionnaire annexed to Chairman Yates' letter to Mr, Caskie, dated July 11, 1955; and

(c) Information respecting mill costs, dealt with by table VII, is universally regarded as a highly confidential trade secret which cannot be disclosed without serious risk of irreparable injury.

C. ALUMINUM AND THE PUBLIC INTEREST

Since 1939, the aluminum industry as a whole has made available to the American people vast quantities of a valuable strategic material, having ever expanding civilian uses. This has been accomplished through a tremendous expansion of primary capacity—from 350 million pounds, in 1939 to a presently contemplated 4 billion pounds annually. There has been no parallel development in the entire field of major metals during this period.

[47] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 12, 1955—Question No. 3.
[48] References: Chairman Yates' letters to Mr. Richard Reynolds, Jr., dated July 12 and August 8, 1955.
[49] Except to the extent that the requested information has been furnished in annex L–1, attached.

All of this has been done in the context of a consistently rising spiral in costs of all kinds.

Yet, today, the price of primary aluminum is only 2½ cents more per pound than it was in 1940, when Reynolds Metals began production of primary aluminum as Alcoa's first competitor. Actually, today's price of aluminum represents a very substantial reduction from the 1939 price, because of the great decrease in the purchasing power of the dollar, which is illustrated in the table, attached as annex Y.

Annex Z is a chart showing the movement of the prices of the nonferrous metals, and of steel, for the period 1939–55, inclusive.

This is a remarkable record. It is all the more remarkable when we compare it with the record of competing metals.

Reynolds Metals is proud of its part in this development.

[Congressional Record, proceedings and debates of the 77th Cong., 2d sess.]

ANNEX A

THE REYNOLDS METALS CO.

(Speech of Hon. Lister Hill, of Alabama, in the Senate of the United States, May 18, 1942)

Mr. HILL. Mr. President, 2 years ago today an old friend, Hon. Marion M. Caskie, former Chairman of the Interstate Commerce Commission, then vice president of the Reynolds Metals Co., brought to my office the president of his company, Mr. R. S. Reynolds. It was my first meeting with Mr. Reynolds, but with great earnestness he asked me to make a few notations. In the light of subsequent history I wish to repeat them to the Senate and to the country. Mr. Reynolds said:

"First. This is a light-metals war and will be won or lost in the air. France, England, and America have ignored for 5 years the sensational increase in production of aluminum and magnesium metals by Germany and her allies. As a consequence of this tragic failure, France is now doomed. Unless we quickly awake to the peril of this new type of aerial warfare, England will fall, and America will follow.

"Second. This is a mechanized war. Here in America we hold in our hands the salvation of the world. Here, and here alone, exist the trained manpower, the machines, and the genius that has made this the greatest mechanized nation on earth. The Government, with full protection to labor and owners, must take over immediately this magic army of mass production and convert it quickly to the manufacture of airplanes and tanks. If we act quickly, we shall save millions of lives and billions of dollars."

So spoke Mr. Reynolds 2 years ago this day. Rebuffed by some who should have given him unstinted support, Mr. Reynolds set an example which he hoped others might follow.

Mr. TRUMAN. Mr. President——

Mr. HILL. I yield to the Senator from Missouri.

Mr. TRUMAN. I can testify from evidence before the committee, of which I have the honor to be chairman, that Mr. Reynolds risked all he had in order to help the country obtain the necessary aluminum supplies for the construction of planes, tanks, and guns. Mr. Reynolds is a patriotic citizen. He risked everything he had. He was dependent absolutely on the Aluminum Company of America for his supplies of aluminum for his own business, and he took the chance of losing everything he had.

Mr. HILL. In other words, his private business without the supply of aluminum from the Aluminum Company of America would have absolutely passed out.

Mr. TRUMAN. It would have passed out, and he risked his private business and mortgaged it in order to make aluminum for the benefit and welfare of the country as a whole.

Mr. HILL. I wish to thank the Senator from Missouri for his words. He is familiar with the record before his committee, and has given the facts as they are. As he has stated, the Reynolds Metals Co. mortgaged every private plant they had to the RFC in 1940 in order that they might go into the aluminum business. They asked for no Government subsidy; they asked for no favor at all; but, instead, for a loan of money for which, as I have said, they gave a mortgage on every plant they had.

The Reynolds Metals Co. mortgaged 20 large factories for an RFC loan in June 1940. In record time 5 mammoth aluminum-reduction plants were built—2 in

Alabama and 3 in the State of Washington. These plants are producing today at the rate almost of 100 million pounds per annum. Late this year this company's production should reach a total of 160 million pounds of virgin aluminum. This is about as much aluminum as the combined production of France and England and almost half as much as the Aluminum Company of America produced as late as 1939. All of this metal and more is being fabricated by Reynolds into wrought aluminum sheet, rod, and extruded shapes for airplanes and ships in its expanded fabricating facilities and in defense plants it is operating for similar production.

At the time of Pearl Harbor, Reynolds Metals Co. was ready for the challenge, and since that momentous date has furnished to our country and the United Nations approximately 40 million pounds of fabricated aluminum which, translated into fighter planes, represents 5,000 of them.

One year later, in May 1941, Mr. Reynolds, after having built the great aluminum production plants in the States of Alabama and Washington, and after being engaged in actual production, still not satisfied that there would be enough aluminum to meet the impending war requirements, addressed a letter to the Office of Production Management in which he stated that, although he had done what he could at the time, he felt that our production of aluminum would not be sufficient to win the war and, in order to meet the emergency, urged the Office of Production Management to go further and convert the automobile industry and other industries into the production of aluminum and into the production of aircraft.

I ask unanimous consent to have the letter set out in full in the Record.

(There being no objection, the letter was ordered to be printed in the Record, as follows:)

"In view of the turn in world affairs, I have once again become alarmed. I am alarmed because of the position in which the United States may soon find itself in this hungry and war-mad world. I am alarmed as a member of the aluminum industry at the magnitude of the responsibility we must face immediately. With these thoughts in mind, I am led to submit the following suggestions:

"First. We should plan immediately to double the present production of aluminum and multiply by 10 our present production of magnesium. This is the absolute minimum if we hope to preserve our independence and way of life.

"Second. The greatest weakness, as I view it, in the production of aluminum is that there are today only 2 large and 1 small alumina plants in the United States—1 at Mobile, 1 at St. Louis, and our small plant at Listerhill, Ala. (producing its first alumina this week). If the large alumina plant at Mobile should be closed by strike, accident, or sabotage, it would wreck all of your calculations on aluminum. I feel constrained to urge again, at this time, that the Government itself finance at least 10 'standby' alumina plants, at different locations well within the safety zone. (This in addition to any increase in regular production.) These plants should be equipped with stocks of bauxite and be ready for operation should the emergency arise.

"Third. It is my firm conviction that production of light metals (aluminum and magnesium) can be expanded as fast as the aviation, automotive, and other direct contractors can expand. Of course, the metal manufacturers should have the same length of time to meet expansion programs as the defense contractors.

"Fourth. The peace of the world, in my opinion, can only be secured and maintained by America making war so horrible that no country or man will ever again take up arms. We have the will, we have the production capacity, and I feel that America only awaits the command of our President."

Mr. HILL. Following this eloquent appeal of Mr. Reynolds, the Office of Production Management within a few weeks announced that the Government would build plants to produce an additional 600 million pounds of aluminum per annum, and this has been more recently followed by even further increases.

The record of the Reynolds Metals Co. stands distinct and alone, because this company was the first to realize that enormously increased quantities of aluminum metal would be absolutely vital if victory is to be won. Without waiting for firm orders, cash-down payments, or Government protection, the company mortgaged all its peacetime factories to increase the supply of aluminum at the very time America was being lulled to sleep as France had been lulled to sleep—lulled by assurance of those in authority—and by statements and press notices that America's supply of aluminum would be ample for defense as well as for civilian requirements.

In the light of what has happened since May 1940 I want my colleagues and the Nation to know that Reynolds Metals Co. is the only company in the United Nations that dared to enter, on its own resources, the hazardous business of

producing aluminum metal from bauxite. This company now has 30 plants, located in 13 States, with 16,000 employees, and has never had a strike. I am proud of the fact that its largest plant is located in Alabama. I hope my colleagues may have the pleasure of visiting this mammoth plant, and seeing it in continuous operation. The plant is unique, for in all the world it is the only one where raw bauxite goes in at one end and comes out at the other end finished wrought aluminum sheet for airplanes.

I am sure the Congress and a grateful Nation will long remember its one and only aluminum volunteer—the Reynolds Metals Co.

Mr. MEAD. Mr. President, will the Senator yield?

Mr. HILL. I yield.

Mr. MEAD. As a member of the Truman committee, I am quite familiar with the subject which has been so well discussed on the Senate floor this morning by my distinguished colleague, the Senator from Alabama. I wish publicly to commend Mr. Reynolds for his foresight and leadership, as well as for the splendid contribution he made to the well-being of our country. When officials of the OPM, high officials in the Government, and leaders of industry were telling us that we had all the aluminum we needed with which to meet present and future demands, this man Reynolds was a great power, stating to us, and reiterating with emphasis, that we would be short of aluminum, and needed more aluminum production. Supporting him and his contention, and meriting our wholehearted commendation, is the distinguished Senator from Alabama, who sustained this pioneer, making a splendid contribution to the story that was well written by the committee headed by the Senator from Missouri [Mr. Truman].

Mr. HILL. I wish to thank the Senator from New York for his kind words as a member of the Truman committee, which investigated thoroughly the aluminum situation. He knows the facts.

Mr. NORRIS. Will the Senator yield?

Mr. HILL. I yield.

Mr. NORRIS. How much time is consumed by the process the Senator has described, the aluminum coming out a finished product? How far does the material have to travel from the raw product to the finished product?

Mr. HILL. Some of the raw product, the bauxite, comes from the State of Alabama, about 200 miles from the plant.

Mr. NORRIS. I do not mean that; I mean, What is the distance traveled in the plant? How far does the material travel before it becomes aluminum?

Mr. HILL. There are really three different processes in the great plant in Alabama. First, they make the alumina, then they get the aluminum, then it is converted into sheet aluminum. There are 3 different processes, and from the time the raw bauxite enters the plant until it comes out covers a period of only 2 weeks.

ANNEX B

Reconstruction Finance Corporation loans[1] to Reynolds Metals Co. and Reynolds Alloys Co.

	Loans to—							
	Reynolds Metals Co.					Subtotal	Reynolds Alloys Co.	Total
	Date loan became effective in part or whole							
	Aug. 3, 1940	June 2, 1941	Oct. 1, 1942	July 1, 1942	June 11, 1942		Oct. 2, 1941	
Dollar volume of each loan	$15,800,000	$4,200,000	$7,500,000	$7,500,000 [2]	$8,000,000 [2]	$43,000,000	$3,000,000	$46,000,000.
Principal purpose of loan	Aluminum production, bauxite ore, working capital, and refinancing loans.				Refunding of loans, aluminum production.		Working capital	
Interest rate or rates.....percent	4	4	4	4	4		4	
Number of years for maximum term of loan	30 years from Aug. 1, 1940				20 years from Oct. 1, 1942.		13 years, 10 months	
Principal repayable in	Cash	Cash	Cash	Cash	Cash		Cash	
Of repayments made to Dec. 31, 1954, on the principal amount paid in dollars.	$15,800,000	$4,200,000	$7,500,000	$7,500,000	$3,750,000	$38,750,000	$3,000,000	$41,750,000.
Amount paid through the issuance of the 5th series of the company's 4-percent serial 1st mortgage bonds which were subsequently paid in cash.					$4,250,000	$4,250,000		$4,250,000.
Amount paid in kind	None	None	None	None	None	None	None	
Amount outstanding on Dec. 31, 1954	0	0	0	0	0	0	0	0.

[1] Reference: Questionnaire annexed to letter from Chairman Yates to Richard Reynolds, Jr., dated July 25, 1955—Question 2a.

[2] A portion of the proceeds of the 4th series of the company's 4-percent serial 1st mortgage bonds and the $8 million loan respectively was used to refund certain notes payable to Reconstruction Finance Corporation issued during the first half of 1942. These notes ($4 million total) covered temporary advances made by Reconstruction Finance Corporation pending the issuance of the above mentioned 4th series of bonds and the execution of the loan agreement of June 11, 1942.

Annex C to responses of Reynolds Metals Co. to questions by Hon. Sidney R. Yates, chairman, Subcommittee No. 3, Select Committee on Small Business of the House of Representatives of the United States, 84th Congress

WASHINGTON 7, D. C., *January 11, 1951.*

Mr. MARION M. CASKIE,
Executive Vice President, Reynolds Metals Co.,
World Center Building, Washington, D. C.

MY DEAR MR. CASKIE: I have your letter of January 3 with reference to the following that appeared recently in Mr. Pearson's column:

"Reynolds was urged by Secretary of the Interior Ickes to manufacture aluminum in completition with the giant Aluminum Corporation of America during the war, and was given all kinds of Government loans, orders and backing * * *."

As I recall, Reynolds Metals Co. entered the aluminum business in competition with the Aluminum Company of America entirely on its own initiative without any Government agency requesting or urging it to do so. It was done over the active opposition of some of those in charge of the national defense program. Mr. Reynolds also had difficulty in getting power. At first, TVA turned him down until Senator Lister Hill brought it to its senses. Mr. Reynolds had to come to me personally to get Bonneville power but I was glad to let him have it, even if some men high in the administration brought real pressure to bear upon me to give it to Alcoa instead of to Reynolds.

After Reynolds had arranged its initial loan from RFC, I then urged it to increase the productive capacity of its then comparatively small plant contemplated at Longview, Wash., and I advised Reynolds that I had conferred with Mr. Jesse Jones and that RFC would lend additional amounts to Reynolds to permit it to increase that plant's capacity up to 60 million pounds per year. Mr. R. S. Reynolds, Sr., chairman of your company's board, promptly responded to my request. The plant's capacity was thus increased, and its production proved most helpful in the successful prosecution of World War II.

I further recall that the Senate War Investigating Committee and the Senate Small Business Committee found that while the Aluminum Company of Canada was advanced $68,500,000 by our Government, without collateral and originally without interest, and was given firm orders for large quantities of aluminum that aggregated as much as 1,400 million pounds with favorable escalator clauses to take care of possible increases in cost of production, Reynolds Metals Co. was not afforded similar treatment for the same purpose—namely to produce aluminum for the defense purposes. For its original and subsequent loans, Reynolds was required to produce adequate collateral in the form of first mortgages on all of its numerous industrial plants, then unencumbered, as well as first mortgages on the plants to be built with the proceeds of loans or subsequently acquired. In addition, it was required to deposit as collateral all stock held by the company in subsidiary and affiliated companies. Reynolds' loans bore interest at the rate of 4 percent, and my recollection is that this was a higher rate than that charged the Aluminum Company of Canada. Reynolds received no firm orders, no down cash payments, and none of the other favorable terms afforded the Canadian company.

I have before me the interim report of the Surplus War Property Subcommittee of the Special Committee To Study Problems of American Small Business, United States Senate, 79th Congress, 1st session, pursuant to Senate Resolution 28, of September 10, 1945, in which reference is made to the extraordinary assistance given the Aluminum Company of Canada by the United States Government. The committee concluded with the following findings and recommendation as set forth on page 10 and 11 of its report: "Government loans made to Reynolds on terms less favorable than loans made to the Canadian company, should be renegotiated. It would seem to be indefensible for the Government to exact harsher terms from United States operators than those given to the newly created giant competitor across the border."

I am informed that following the above recommendation, your company requested RFC to comply therewith but that no action was taken in this direction by RFC.

Sincerely yours,

HAROLD L. ICKES.

Annex D to responses of Reynolds Metals Co. to questions by Hon. Sidney R. Yates, chairman, Subcommittee No. 3, Select Committee on Small Business of the House of Representatives of the United States, 84th Congress

FUTURE OF LIGHT METALS INTERIM REPORT OF THE SURPLUS WAR PROPERTY SUBCOMMITTEE OF THE SPECIAL COMMITTEE TO STUDY PROBLEMS OF AMERICAN SMALL BUSINESS, UNITED STATES SENATE, PURSUANT TO SENATE RESOLUTION 28, SEPTEMBER 10, 1945

[Pp. 10 and 11]

Extraordinary assistance was given by the United States Government to the Aluminum Company of Canada, which has resulted in the rise of that company from a minor institution to the largest and probably the lowest cost private producer of aluminum ingot in the world. The principal stockholders of Alcoa own a majority stock interest in Aluminum, Ltd., a holding company whichohwns the Aluminum Company of Canada.

United States assistance to the Canadian company grew out of our unpreparedness to meet requirements for aluminum to carry out the aircraft expansion program of 1941–42. Officials of Defense Advisory Commission and Office of Production Management had relied on assurances of Alcoa and private power officials that we would have ample power and aluminum to meet all needs.

Pleas made in 1940 by R. S. Reynolds, Secretary Ickes, and western and southern Senators and Members of the House of Representatives for capacity great enough to meet the challenge of Germany's air armada went unheeded. In April 1941 it suddenly became realized by our authorities that vastly larger quantities of both aluminum and magnesium were urgently needed.

Our officials were informed that part of our requirements could be supplied by the Aluminum Company of Canada, and placed orders in the spring of 1941 and in the spring of 1942 with the Canadian company for over a billion pounds of aluminum ingot, at prices averaging several cents per pound higher than the United States market price.

In order to assist the Canadian company to expand its production facilities to fill these orders, our Government made to the Canadian company advances of $68,500,000. At the same time, a program was adopted for expanding United States private and public power and aluminum and magnesium production to the present levels.

The United States purchases and loans in Canada, together with similar loans and purchases by the British Government, with provisions for writing off the plant investment through accelerated rates of depreciation, combined to provide the Canadian company with a new and magnificent plant with a capacity of over a billion pounds of aluminum per year, and with a hydroelectric production of over 900,000 kilowatts capacity, mostly paid for out of wartime earnings.

With these facilities, the Canadian company will probably be able to undersell in foreign markets any American aluminum producer and perhaps even to sell large quantities of aluminum in the United States over the existing tariff wall of 3 cents per pound. Had our defense officials heeded the warnings they received in 1940 and early 1941, and acted more promptly to enlarge public power and metal-production facilities in the United States, much more of the needed aluminum could have been produced in this country, at lower prices than were paid to the Canadian company, and, instead of building up a foreign competitor, the facilities would have been ours for postwar use.

The Surplus Property Board and other Government agencies should give consideration to these facts in formulating light-metals policies. Terms of lease, sale, or loans to new producers should be made with a view to permitting United States producers to meet Canadian competition.

Government loans made to Reynolds on terms less favorable than loans made to the Canadian company, should be renegotiated. It would seem to be indefensible for the Government to exact harsher terms from United States operators than those given to the newly created giant competitor across the border.

ANNEX E

APPENDIX 16.—GOVERNMENTAL WARTIME ASSISTANCE TO THE ALUMINUM COMPANY OF CANADA, SUBSIDIARY OF ALUMINUM LTD. (ALTED)

Plant investment of the Aluminum Company of Canada for war purposes for which special depreciation was allowed amounted to about $193 million. This included about $70 million for the Shipshaw power development and $122,850,000 for production plant and machinery. By arrangement with the Canadian Government, 60 percent of the cost of the power project, or $41,250,000, was written off against profits during 4½ years, and all of the $122,850,000.[1]

The company obtained from foreign governments advances on purchases of aluminum of nearly $80 million and loans of nearly $90 million including lines of credit. This assistance comprised advances on purchases of metal of $68,500,000 by the Metals Reserve Company (Reconstruction Finance Corporation); $10 million to $12 million by Great Britian; $3 million to $5 million by Australia; a line of credit from the Export-Import Bank of the United States, which protected outstanding bank loans of $30 million as of December 3, 1943; and loans by Great Britain aggregating $55,600,000.[2] The Metals Reserve Company contracted for deliveries of 1,370 million pounds during 1941–45. The base purchase price on the advances, 17 cents per pound, was initially the same as the price in the United States but was subject to very liberal escalator allowances for more than actual increases in major items of cost due to the war. In October 1941 the American price dropped to 15 cents but the Canadian company granted only a partial reduction in its base price. The actual average cost of the Canadian metal to this country was 18.6 cents as compared with the American price during 1942–45 of 15 and 14 cents. This difference meant an extra cost of over $35 million on deliveries from 1941 through 1944. If the United States had canceled the contract at any time, the unrepaid portion of the advance would also have been canceled, and the Metals Reserve Company would have been subject to an additional penalty charge of 1 cent per pound for all unaccepted metal. The British loan was repayable over 20 years with annual abatements directly proportional to the extent that no use was made of the facilities built to meet British needs.

The other terms of the Metals Reserve Company advance were also very liberal. The first advance was $25 million at 2 percent (May 2, 1941); the second advance was $25 million (July 15, 1941); the 2 advances were consolidated into a non-interest-bearing advance on March 6, 1942, supplemented by a line of credit through the Export-Import Bank up to $25 million with interest at 3 percent; and the last advance was $18,500,000 on April 1, 1942. supplemented with an additional line of credit up to $9,250,000 with interest at 3 percent. Criticism of these arrangements led to a revision of the contracts in 1943, under which an interest charge of 3 percent was imposed retroactively on all advances.

The terms of American participation in this Canadian program were reviewed by the Truman committee of the Senate[3] and by the Senate Small Business Committee.[3]

[1] Canadian House of Commons, Votes and Proceedings No. 120, January 26, 1944, p. 744.
[2] Canadian House of Commons Debates, March 23, 1943, p. 1426, Moody's Industrials, 1944, and Investigation of the National Defense Program, S. Rept. No. 10, pt. 16, 78th Cong., 2d sess., pp. 68–70.
[3] Hearings on Problems of American Small Business, 79th Cong. pts. 57 and 58, the Shipshaw Contract, I and II.

ANNEX F

Metals Reserve Company advance [1] to Reynolds Mining Corp.

Date advance became effective in part or whole.	Jan. 1, 1942	Aug. 31, 1942	Aug. 31, 1942	Total
Dollar volume of advance	$500,000	$450,000	$300,000	$1, 250, 000. 00
Principal purpose	Development of bauxite mining facilities.	Development of underground bauxite mining facilities.	Development of open-pit bauxite mining facilities.	
Interest rates	3 percent	3 percent	3 percent	
Number of years for maximum term	Not specified; canceled July 21, 1945	Not specified; canceled Dec. 4, 1944	Not specified; canceled Dec. 24, 1943	
Principal repayable in	Portion of sales price of bauxite	Portion of sales price of bauxite	Portion of sales price of bauxite	
Of repayments made to Dec. 31, 1954, on the principal—				
Amount paid in kind—				
Quantity	580,730 long dry tons	69,237 long dry tons	333,333 long dry tons	
Commodity	Bauxite, at 83.3 cents per long dry ton	Bauxite, at 75 cents per long dry ton	Bauxite, at 90 cents per long dry ton	
Amount	$483,747.78	$51,927.85	$300,000	835, 675. 63
Reduction from contract termination	$16,252.22	$398,072.15	None	414, 324. 37
Amount outstanding on Dec. 31, 1954	None	None	None	0

[1] Reference: Questionnaire annexed to letter from Chairman Yates to Richard Reynolds, Jr., dated July 25, 1955 (question 2a).

ANNEX G

Reynolds Mining Corp. sold 1,260,806 long dry tons of bauxite having a sales value of $5,680,123 at an average price per ton of $4.505 to Metals Reserve Company under these contracts during World War II for stockpile.

At the start of the Korean war the United States Government committed 2,785,527 long dry tons of bauxite from reserves for use by Reynolds Metals Co. at Hurricane Creek, Ark. Reynolds Metals Co. has purchased under this commitment: [1]

Year	Long dry tons	Dollars	Average purchase price
1950	172,369.68	1,182,195.79	
1951	365,705.96	2,474,460.44	
1952	149,785.20	1,008,812.87	
1953	15,944.57	108,756.41	$6.859
1955 to July 29	48,210.43	383,483.24	
Total	752,015.93	5,157,708.75	

ANNEX H

ALUMINA PLANT AT HURRICANE CREEK AND ALUMINUM PLANT AT JONES MILLS

On November 28, 1945, an offer was submitted by Reynolds Metals Co. to the Government to lease the Government's alumina plant at Hurricane Creek, Ark., and the nearby aluminum plant at Jones Mills. The proposal was very simple. The Government did not have to buy any metal and did not have to share any of the losses incurred in operating these plants. At the same time the Government was guaranteed minimum rentals amounting to 4 percent of the plant's net cost for the first year and rising 1 percent each year until it reached 8 percent in the final and fifth year of the lease. All the Government had to do was deliver the facilities to Reynolds Metals free and clear of all outside claims and in operating condition. Surplus Property Administrator W. Stuart Symington wrote to Senator O'Mahoney, on December 17, 1945, that this Reynolds offer "does not involve the Government in any subsidy."

Reynolds Metals on its part was to carry all the financial risks of operating these plants—including the payment of all taxes and insurance and the obligation to supply its own working capital. In addition, it agreed to sell alumina to any other independent operators at cost, plus 6 percent.

This offer was unusual in many respects. It required no concession whatever by the Government to the fact that extraordinary difficulties confronted any independent operator of these plants. The rental terms were more than fair to the Government. Both plants had been in operation since the middle of 1942. On a business basis, they would have received the benefits of the wartime accelerated amortization of 20 percent a year, cutting their net book cost 70 percent by the end of 1945. Nevertheless, the base on which the rentals were calculated was only 30 percent less than the plants' cost of construction.

The rental rate was also reasonable to the Government. In less than 14 years the Government would receive rentals equal to the full net value of these plants. These types of plants have operated in this country for periods exceeding 20 years without requiring reconstruction. None of the financial features of the lease can, therefore, be characterized as concessions to the Reynolds Metals Co. or to the need for competition.

The only serious obstacle to the consummation of this lease was the Government's hesitation to indemnify Reynolds Metals against outside claims until some arrangements had been made by the Government with Alcoa regarding patents involved in the alumina plant. More than a month elapsed before the Government and Alcoa were able to arrive at even a tentative understanding. That was achieved on January 10, 1946. Reynolds Metals signed up with the Government immediately.

[1] Reference: Questionnaire annexed to letter from Chairman Yates to Richard Reynolds, Jr., dated July 25, 1955 (question 2c (1) and (2)).

All who were familiar with the aluminum situation were in agreement that the Government aluminum plants would remain "white elephants" indefinitely unless the Hurricane Creek alumina plant were disposed of to an independent operator. The SPB reported to Congress in September 1945 that "the key to disposal to private enterprise of the largest possible amount of the Government investment lies in bringing a new producer into the Hurricane Creek alumina plant, preferably one who also will operate reduction capacity." As long as the ultimate disposal of this alumina plant remained in doubt, prospective bidders on the Government aluminum and fabricating plants showed no interest in talking the kind of terms which might lead to a lease or sale.

Reynolds Metals broke the deadlock with its offer of November 28, 1945, for the Hurricane Creek alumina plant and the Jones Mills aluminum plant. It was the first independent operator to make an offer to lease Government plants entirely at its own risk, without requiring the Government to purchase metal or underwrite any losses. After the Arkansas plants were leased to Reynolds Metals on January 10, 1946, the Government's plant-disposal program made rapid progress.

When Reynolds Metals leased the Hurricane Creek alumina plant, without simultaneously leasing the aluminum-ingot plants in the Pacific Northwest, it was taking a long step forward toward attracting additional competitors in the production of aluminum. It was in a position to produce enough alumina to supply aluminum-ingot plants with 850 million pounds of capacity. Reynolds itself had at the time only 235 million pounds of such capacity, leaving a net alumina capacity sufficient to supply over 600 million pounds of aluminum-ingot capacity held by others. In addition, the terms of its lease obligated Reynolds Metals to sell alumina to others and at a price no higher than cost, plus 6 percent. The situation undoubtedly contributed materially to the development of a third aluminum producer in this country. It was then possible for an independent operator to get started by just running an aluminum-ingot plant. Less than a month after the Arkansas leases were signed, the Kaiser interests bid for the Government's aluminum-ingot plant and sheet mill at Spokane.

SHEET MILLS, CHICAGO AND LISTERHILL

By spring of 1946 the giant alumina plant and the aluminum-ingot plant in Arkansas were producing the basic raw materials which were soon to find their way into desperately needed housing, transportation equipment and food packaging.

While these plants were being prepared for operation, Reynolds Metals negotiated with the Government for other "white elephants" to be converted into production and employment centers. The Government sheet mills were given first consideration.

The two largest ones were idle, at Chicago and Spokane. The third was being operated by Reynolds Metals at Listerhill. Although the idle mills had not yet been officially declared surplus, Reynolds Metals offered to operate them under an interim lease arrangement, bids being submitted on January 15, 1946, for the Chicago mill and on January 28 for the Spokane mill.

Neither of these bids was accepted. Instead, a subsequent offer for a long-term lease by another independent bidder was tentatively accepted for the Spokane mill. Since the Chicago mill was practically identical in capacity and type with that in Spokane, Reynolds Metals offered, by letter of February 12, to lease it on whatever terms would be accepted by the Government for the Spokane mill.

In order to take every precaution, Reynolds bid for both sheet mills on a long-term basis. It was awarded the Chicago mill, for which there was no other bid by an independent aluminum operator. The Spokane mill was awarded to the other bidder, the Kaiser Co. The Chicago mill, leased to Reynolds Metals Co., cost the Government $5 million less to build and was appraised by the Government at the time of the lease at $2,800,000 less than the Spokane mill. Nevertheless, Reynolds Metals was to pay minimum rentals of $7,732,312 during the 5-year lease period. This was $819,312 more than the Kaiser interests were to pay in rentals for the Spokane mill. In both cases the rental is 5 percent of net sales if that exceeds the guaranteed minimum.

While negotiations were going on for the larger Government sheet mills, Reynolds Metals also arranged to purchase the Government sheet mill at Listerhill, Ala., which the company had operated during the war. The price was $7 million—the fair value according to the Government's appraisal. Payment was to be made over a 15-year period, with 4 percent interest on the unpaid

balance. This purchase was another indication that Reynolds Metals meant to stay permanently in the aluminum industry and to continue developing its markets.

EXTRUSION PLANT AT GRAND RAPIDS AND ALUMINUM INGOT PLANT AT TROUTDALE, OREG.

The two Government plants for which others did bid were the extrusion plant at Grand Rapids, Mich., and the aluminum ingot plant at Troutdale, Oreg. The unsuccessful bidder on the Grand Rapids plant, Bohn Aluminum & Brass Corp., obtained another Government extrusion mill, 3½ times as large, with a minimum rental during the first year which was less than what Reynolds Metals committed itself to pay on the much smaller plant.

The Grand Rapids aluminum extrusion plant was built for the Defense Plants Corporation by Extruded Metals, Inc., and we understand that it was operated by Extruded Metals at a substantial loss. After the property was declared surplus, Reynolds Metals Co. leased the property and attempted to operate it but sustained a loss in so doing in the amount of approximately $1,750,000, over $500,000 of which represented cash rental paid the Government. Thereafter, the plant was brought by the company for $1,500,000, which when the rent paid the Government is included approximates $2 million. The fair value placed on this property by the Government was $2,100,000.

The Troutdale ingot plant offered a much more complex situation. There were two other bidders: the Kaiser interests and a newcomer, Asarco Aluminum Co. (a joint venture of American Smelting & Refining, the Swiss Aluminum Co. and the Billiton tin interest). As War Assets Administration explains in its recent report to Congress, Reynolds Metals was chosen because it was "the only one of the three bidders who contemplated making full use of all four pot-lines in the plant," and because of "the lack of sufficient metal producing facilities to permit Reynolds to supply the needs of its owned and leased fabricating facilities."

EXTRUSION PLANT AT PHOENIX

The Phoenix, Ariz., extrusion plant's location was determined by the Goverment as a safety precaution and not as a desirable one for the operation of the plant at the end of hostilities. It was declared surplus by the Government at the end of hostilities. It was never operated to capacity during the war period but nevertheless represented the largest single investment the Government had in such plants. After the war the plant became a real liability on the Government's hands.

Reynolds was urged by the Government to lease the plant if possible which the company reluctantly did. Upon Reynolds' effort to cancel the lease, the General Services Administrator offered the plant to Reynolds at a price of $6 million. Even then Reynolds' experience in the operation of the plant made it reluctant to accept the Government's proposal. It was finally accepted when the purchase of the Grand Rapids aluminum extrusion plant was included in a package deal, the purchase of the Grand Rapids plant being previously agreed upon.

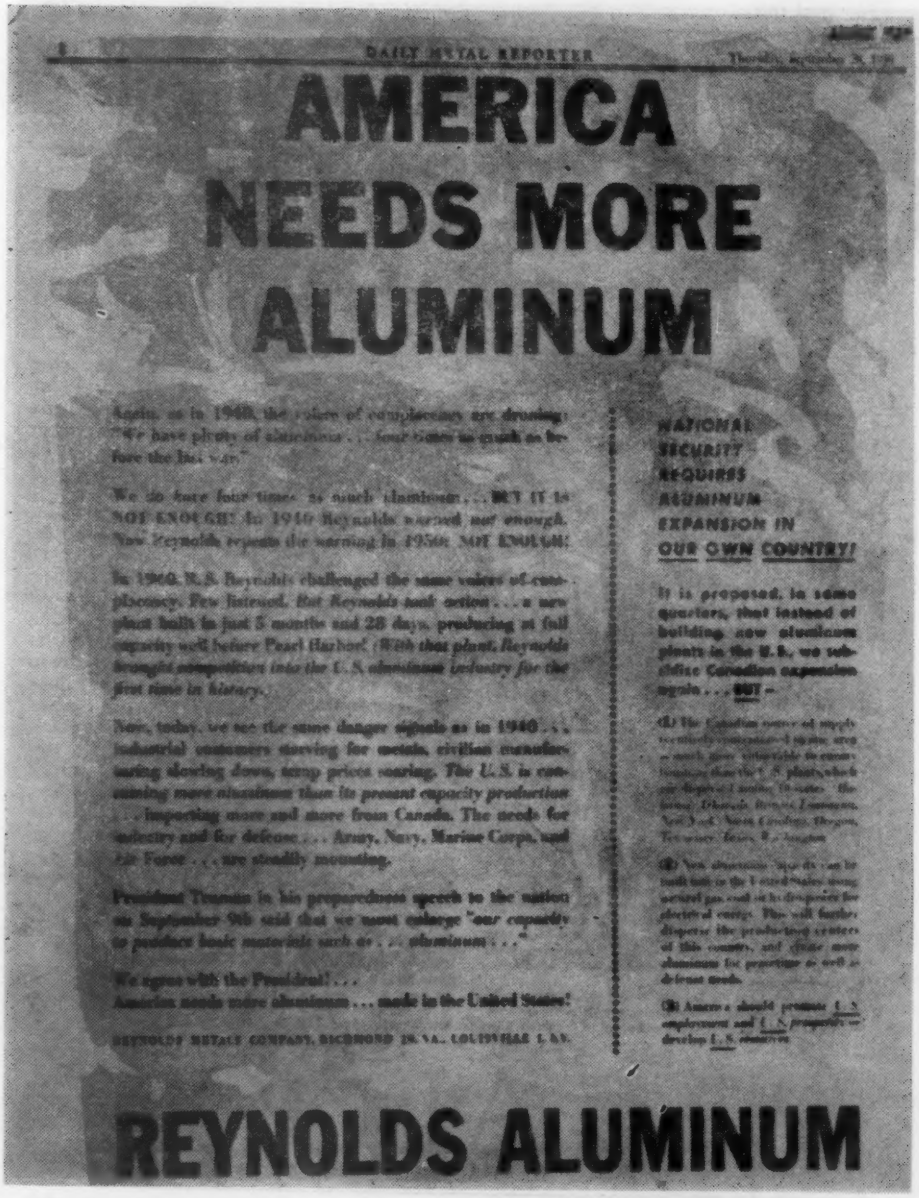
ANNEX I

Aluminum purchased by Reynolds Metals Co. from Government reserve [1]

Period	Pounds	Dollars	Period	Pounds	Dollars
1940–45	(2)	(2)	1951	(3)	(3)
1946	63,067,485	$8,858,822.90	1952	19,351,519	[4] $3,492,514.21
1947	4,020,980	582,961.55	1953	4,326,347	843,637.66
1948	17,929,599	2,532,938.60	1954	(3)	(3)
1949	(3)	(3)	6 months, 1955	(3)	(3)
1950	(3)	(3)			

[1] Questionnaire annexed to letter from Chairman Yates to Richard Reynolds, Jr., dated July 25, 1955, question 2c (3).
[2] Not available.
[3] None.
[4] The circumstances under which these purchases were made are explained in pt. III of these responses.

Four Times as Much Aluminum is Ready
TO OUR GOVERNMENT WE REPORT
TO OUR CUSTOMERS WE PROMISE
TO NEW ACQUAINTANCES
ALCOA
ALUMINUM COMPANY OF AMERICA


DAILY METAL REPORTER
AMERICA
NEEDS MORE
ALUMINUM
Again, as in 1940, the voices of complacency are drowning: "We have plants of aluminum . . . four times as much as before the last war."
We do have four times as much aluminum . . . BUT IT IS NOT ENOUGH! In 1940 Reynolds warned not enough. Now Reynolds repeats the warning in 1950: NOT ENOUGH!
In 1940, R.S. Reynolds challenged the same voices of complacency. Few listened. But Reynolds took action . . . a new plant built in just 5 months and 28 days, producing at full capacity well before Pearl Harbor! With that plant, Reynolds brought competition into the U.S. aluminum industry for the first time in history.
Now, today, we see the same danger signals as in 1940 . . . industrial consumers stowing for metals, civilian manufacturing slowing down, scrap prices soaring. The U.S. is consuming more aluminum than its present capacity production . . . importing more and more from Canada. The needs for industry and for defense . . . Army, Navy, Marine Corps, and Air Force . . . are steadily mounting.
President Truman in his preparedness speech to the nation on September 9th said that we must enlarge "our capacity to produce basic materials such as . . . aluminum . . ."
We agree with the President! . . .
America needs more aluminum . . . made in the United States!
REYNOLDS METALS COMPANY, RICHMOND 28, VA., LOUISVILLE 1, KY.
NATIONAL SECURITY REQUIRES ALUMINUM EXPANSION IN OUR OWN COUNTRY!
It is proposed, in some quarters, that instead of building new aluminum plants in the U.S., we subsidize Canadian expansion again . . . BUT –
REYNOLDS ALUMINUM

ANNEX K

General Services Administration advance [1] to Reynolds Metals Co.

Dollar volume of advance	12,000,000.
Date advance became effective in part or whole	Aug. 24, 1951.
Principal purpose	Aluminum production.
Interest rate	4 percent.
Number of years for maximum term	6 years 5 months.
Principal repayable in	(2)
Of repayments made to Dec. 31, 1954 on the principal	
Amount paid in dollars	5,060,152.16.[2]
Amount outstanding on Dec. 31, 1954, repayable in dollars	6,939,847,84.[2]

[1] Reference: Questionnaire annexed to letter from Chairman Yates to Richard Reynolds, Jr., dated July 25, 1955, question No. 2a.

[2] Of the $12 million, repayment of $4,256, 485.03 was effected by deductions from invoices covering delivery of aluminum to the stockpile and $7,743, 514.97 was paid in cash, payment in full having been accomplished on July 28, 1955.

ANNEX L

Economic Cooperation Administration loan [1] to Reynolds Jamaica Mines, Ltd.

Dollar volume of advance	14,287,033.18.
Date advance became effective in part or whole	Jan. 24, 1950.
Principal purpose	Bauxite production and cargo vessel.[2]
Interest rate	4 percent.
Number of years for maximum term	20.
Principal repayable in	Aluminum.
Of repayments made to Dec. 31, 1954, on the principal: Amount paid in kind:	
Quantity	18,560,000 pounds.
Commodity	Aluminum.
Amount	$3,630,000.
Amount outstanding on Dec. 31, 1954, repayable in kind:	
Quantity	47,364,592 pounds.[3]
Commodity	Aluminum.
Amount	$10,657,033.18.

[1] Reference: Questionnaire annexed to letter from Chairman Yates to Richard Reynolds, Jr., dated July 25, 1955, question 2a.

[2] Upon acquiral of the ore carrier, Tropical Steamship Co., Ltd., assumed liability for the cost $2,600,000 of the above advance.

[3] Quantity estimated based on current sales price of aluminum (22.5 cents per pound).

ANNEX L–1

Reynolds Metals Co. and wholly owned subsidiaries

	Net sales	Profit before taxes	Net profit	Net worth at end of period	Cash dividends paid on preferred and common stock
1939	$20, 495, 787	$1, 940, 751	$1, 526, 891	$18, 053, 112	$275, 000
1940	29, 157, 971	4, 045, 044	2, 428, 277	19, 919, 208	582, 090
1941	48, 602, 558	5, 346, 575	2, 867, 674	22, 511, 973	275, 000
1942	86, 068, 181	5, 815, 592	1, 373, 592	23, 073, 039	786, 817
1943	138, 055, 349	12, 233, 638	3, 658, 950	25, 700, 775	1, 042, 726
1944	165, 215, 210	11, 815, 158	3, 045, 818	27, 447, 958	1, 298, 635
1945	148, 308, 714	8, 364, 487	4, 396, 187	36, 079, 667	1, 298, 635
1946	131, 034, 049	9, 942, 169	5, 336, 507	42, 360, 247	785, 118
1947	129, 251, 355	[1] 6, 136, 484	[1] 3, 296, 989	43, 201, 836	1, 297, 579
1948	149, 207, 149	14, 217, 799	9, 036, 531	50, 444, 347	1, 794, 020
1949	131, 864, 684	8, 818, 541	5, 503, 215	55, 102, 740	1, 637, 222
1950	166, 925, 510	25, 966, 321	12, 599, 731	66, 012, 549	1, 767, 623
1951	215, 704, 848	48, 126, 668	15, 837, 846	80, 223, 778	1, 756, 817
1952	234, 738, 789	34, 457, 220	14, 731, 071	93, 381, 238	1, 667, 061
1953	287, 892, 987	35, 165, 636	18, 320, 975	109, 060, 837	2, 661, 719
1954	306, 778, 822	38, 596, 306	20, 280, 908	126, 872, 909	2, 810, 085
1955 (6 months)	183, 973, 937	32, 662, 170	16, 425, 754	142, 119, 510	1, 004, 515

[1] Excludes profit from disposal of partial interest in subsidiary.

ANNEX M

Total of loans and advances from the U. S. Government or its agencies, Dec. 31, 1939, to date [1]

	Principal amount	Refer to annex
Loans: Reconstruction Finance Corporation	$46,000,000.00	B
Advances:		
Economic Cooperative Administration	14,287,033.18	K
General Services Administration	12,000,000.00	J
Metals Reserve Company	1,250,000.00	F
Total	73,537,033.18	

[1] Reference: Questionnaire annexed to letter from Chairman Yates to Richard Reynolds, Jr., dated July 25, 1955, question 2a.

ANNEX N

GOVERNMENT-OWNED FACILITIES OPERATED BY REYNOLDS METALS CO. OR IN PROCESS OF INSTALLATION

There are no plants owned by the Government and operated by Reynolds Metals Co. Certain specialized industrial equipment has been installed at various plants of Reynolds Metals Co. where by utilizing Reynolds' organization, know-how, and supplemental facilities, the Government-owned facilities could produce greater quantities of military end products or components as required by the Government. A summary of the individual facility contracts entered into by Reynolds with the Government is attached. It should be noted that they fall into four principal categories: Military airframe components, military pontoon bridge components, rocket motors and components, and antiradar foil chaff.

In all cases, the Government has secured a tremendous increase in this Nation's capacity to produce these military items without building whole plants, which would have been required to produce the same quantities had Reynolds not made some of its own facilities available, and the great majority of these facilities are not capable without extensive modifications of producing commercial items. The airframe components production facilities are in process of installation at the McCook, Ill. plant at a cost of approxiaately $16 million and at Phoenix, Ariz. at a cost of approximately $1,400,000; the rocket facilities are installed at the Phoenix, Ariz. plant at an original cost to the Government of approximately $375,000. The pontoon bridge component facilities are installed at the Grand Rapids plant at an original cost to the Government of approximately $500,000.

The aircraft facilities installed by the Navy at the McCook sheet mill will involve approximately $16 million when completed. In 1950 as a companion program to the heavy-press Program, the Air Force invited bids from Alcoa, Reynolds, and Kaiser for the installation of facilities to produce wide and long rolled tapered sheet. It was requested that these proposals involve maximum utilization of the company's own facilities and equipment, and minimum expenditure of Government funds. Alcoa was awarded a contract by the Air Force for the installation of such facilities at their Davenport, Iowa, sheet mill, the newest large sheet mill in the United States. Subsequently, the Navy requested bids from Reynolds and Kaiser for the installation of almost identical facilities (the Government desiring more than one source of rolled tapered sheet). Reynolds and Kaiser submitted bids, and on June 10, 1952, Reynolds was awarded a contract for the installation of the facilities at its McCook mill. Subsequently, both the Air Force and the Navy have enlarged the scope of their programs and have added skin-milling machines and large plate stretchers to the two facilities. These facilities will be required for the production and milling of very wide tapered sheet and plate for aircraft wings and fuselages. None of the facilities provided at McCook have been completed or operated because their size and complexity plus changes in airframe manufacturer's requirements have required constant changes in the equipment and meanwhile approximately 5 acres of space in Reynolds Metals Co.'s McCook plant have not been available for use by Reynolds Metals Co.

Cost of Government-owned facilities at Reynolds Metals Co.'s plants

Location	Cost [1]	Type facility	Military products	Contract No.	United States agency
McCook	$16,347,809	Tapered sheet and plate mill	Airframe sections	NOa 1179	Navy.
Phoenix	113,990	Machining and painting	Rocket motors	NORD–5–1606	Do.
Do	250,000	Continuous strip welding mill	Welded rocket motors	NORD–12994	Do.
Grand Rapids	504,800	Large extrusion press	Pontoon-bridge members	DA–49–129, Eng. 144	Corp of Engineers.
Phoenix	1,348,168	do	Airframe sections	NOa 54–016	Navy.
Richmond	75,843	Slitters and packaging equipment	Chaff		Air Force.
Sheffield Parts	425,236	Jigs, dies, and fixtures	Airframe components		Army Ordnance.
Total	19,065,846				

[1] Of these facilities, those located at McCook and the extrusion press located at Phoenix are still in process of being installed.

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ANNEX O

[Extract from progress report No. 24 of the Joint Committee on Defense Production; 83d Cong., 2d sess. (1953) pp. 15–18.]

D. THE DEPARTMENT OF JUSTICE APPROVED AND ADVOCATED INTEGRATION

The War Mobilization and Reconversion Act of 1944 provided for safeguards to prevent the pressure of mobilization or reconversion from stifling competition or strengthening monopoly. Under section 205 of that law (Public Law 458, 78th Cong.) the Attorney General was directed "to make surveys for the purpose of determining any factors which may tend to eliminate competition, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power in the course of war mobilization and during the period of transition from war to peace and thereafter." The act further provided that the Attorney General should submit the results of such surveys to Congress "including recommendations for such legislation as he may deem necessary or desirable." The Attorney General submitted such a report on the aluminum industry, dated September 11, 1945.

According to statements made in this report, the Department of Justice looked to integrated producers to provide competition in the aluminum industry. In appraising the competitive situation then existing, the report stated that "The most promising source of competition today is Reynolds Metals Co. It is the only company, outside of Alcoa, which is at all integrated from the mining of bauxite to the fabrication of finished products" (p. 16).

The report then went on to point out that Reynolds Metals was "handicapped," among other things, by "unbalanced capacity," with only 35 percent of its fabricating capacity fully integrated back to the ore. Then, referring to the efforts of Reynolds to get more integrated facilities, the report stated that "This company is striving for a firm and substantial postwar position in the industry. By letter of August 1 (1945) to the Surplus Property Board, Reynolds Metals Co. indicated its interest in leasing and eventually purchasing DPC alumina, ingot and fabricating facilities. If such plants do become part of the Reynolds system, that company's status as a competitive producer will be improved considerably" (p. 17).

Discussing the possibility of new producers becoming competitors of Alcoa, the report emphasized that integration is essential:

"Newcomers, to be able to compete with Alcoa, must enter the industry on an integrated basis—operating a balanced group of DPC plants, not just one unit" (p. 18).

Integration is also stressed in discussing the opportunity for competition in the fabricating branches of the industry:

"The outlook for competition in the fabrication of aluminum depends primarily on what happens on the producing side of the industry. First of all the most effective fabricating competitors against Alcoa will have to be integrated independents who also produce this metal. The fabricators who purchase ingot will not be effective competitors insofar as Alcoa is both their prime source of supply and largest competitor. Competition in fabrications will come only after it has been firmly established in the production of ingot" (p. 19).

Nowhere in the Attorney General's report was there any advocacy of nonintegrated producers as the basis for competition. Even the "only solution" offered by the Attorney General, a "splitup of Alcoa into a number of competing companies," contemplated that each of these new companies be integrated producers and fabricators.

E. GOVERNMENT PLANT DISPOSAL AGENCIES ADVOCATED INTEGRATION

Under the Surplus Property Act of 1944, the Surplus Property Board was directed by Congress to dispose of Government plants so as "to promote competition, and to foster new and independent enterprise." On September 21, 1945, the Board reported its recommendations with respect to the disposal of the Government's aluminum plants. The principal points of its "recommended competitive program" were:

"1. First priority to buy the Government alumina and aluminum producing plants be given to competitors of Alcoa" (p. 50).

"2. Government fabricating plants be offered first to any operators of Government reduction plants in order to enable them to integrate their business more favorably" (p. 52).

The War Assets Administration, successor agency to the Surplus Property Board, made a progress report to Congress on February 12, 1947, covering the disposals of Government aluminum plants.

"The shortage in primary aluminum production is currently affecting the smaller independent aluminum fabricator, who has difficulty in placing orders for relatively small amounts of ingot. To date, surplus reduction plants have been leased to operators whose own fabricating facilities are capable of consuming their total primary aluminum production. This circumstance has a bearing on the disposal of the remaining reduction plants as well as the fabricating plants. It would be helpful to both the present fabricators and any new operators if further disposals of reduction plants were made so as to increase the supply of primary aluminum on the open market" (p. 6).

Significantly, however, there was no suggestion in that report that the solution lies in the creation of nonintegrated producers. On the contrary, it stated that "surplus plant disposals have strengthened Alcoa's competitors by enabling them more fully to integrate their operations" (p. 11), and reached this conclusion:

"The distribution of productive capacity in surplus plants to new independent producers represents a major step toward the establishment of a competitive aluminum industry, but production in these plants and the marketing of their output will eventually determine this issue" (p. 38).

F. CONGRESS RECOGNIZED AND ENDORSED INTEGRATION AS ESSENTIAL TO COMPETITION

Pursuant to the Surplus Property Act of 1944, the policies of the disposal agencies were to be approved by Congress. During 1945 and 1946, three Senate committees conducted investigations and held hearings on the policies governing disposal of the Government aluminum plants, with special attention to the effect on competition. All of these committees approved and supported the policy adopted by the Surplus Property Board.

The Senate Small Business Committee conducted the most comprehensive hearings. In its December 31, 1946, report it made these comments on the integration question:

"The program of the Surplus Property Board has required setting up two large integrated competitors of Alcoa. This was unavoidable because only strong integrated corporations can survive, if they are to be truly competitive with Alcoa" (Senate Small Business Committee Print No. 14, 79th Cong., 2d sess., p. 25).

And in its final recommendations on plant disposal, the committee urged that—

"Speed in disposing of remaining fabricating plants should be subordinated to plans to meet the requirements for integration of the independent producers" (p. 6).

The Government's aluminum plant disposal policies received a thorough and extended airing and discussion in Congress, probably more exhaustive than those on the disposal policies governing any other group of plants. At all times the effect on competition was a prime consideration and in that connection integration was recognized by Congress as essential and no voices were raised urging instead reliance on nonintegrated producers.

G. FEDERAL COURTS ALSO RELIED ON INTEGRATED PRODUCERS FOR COMPETITION

The judiciary, as well as the executive and legislative branches, has expressed itself on the importance of integration as a basic tool for shaping a competitive aluminum industry. United States District Court Judge Knox, in concluding his June 2, 1950, opinion in the Alcoa antitrust case, declared that "the future development of the industry depends upon its being composed of financially sound and well-integrated organizations" (p. 173 of the opinion).

In refusing to split up Alcoa, which was urged by the Department of Justice, Judge Knox stated:

"At the present juncture, the weakening of any aluminum producer would lessen the buoyancy of the industry as a whole. Rightly or wrongly, from an economic and social standpoint, big business in many industries is an actuality, and if such enterprises are to be subjected to effective competition, their trade rivals must be of somewhat comparable strength" (pp. 173–174).

This same basic view is reflected elsewhere in the opinion, during a consideration of the prerequisites to the creation of a new competitive aluminum producer:

"In view of the existing structure of this industry, it is reasonably obvious that in order successfully to compete here and abroad, the new firm would require the economies which follow upon the integration of operations from the extraction of ore through the manufacture of semifabricated products" (p. 135).

At no point in the entire opinion did Judge Knox in any way intimate that nonintegrated producers would be preferable as instrumentalities of competition.

In summary, during the 1945–50 period, when the issue of a competitive pattern for the aluminum industry was before each of the three major branches of the Federal Government, each of them advocated and endorsed integration and not one of them recommended the creation of nonintegrated producers.

H. SHORTAGES, NOT COMPETITIVE NEEDS, STIMULATED REQUEST FOR NONINTEGRATED PRODUCERS

The suggestion that nonintegrated producers be established developed with the civilian shortages which came in the wake of the Korean crisis. It seems to be generally recognized that such a producer could not be cost competitive, or price competitive, with the present integrated producers. Consequently, under present conditions in the aluminum industry, a nonintegrated producer would probably be unable to contribute new forces of competition to the industry. Some of the proponents have intimated that premium prices would be needed to keep a nonintegrated producer alive. Such a situation would weaken, not strengthen, competition in the aluminum industry.

Nonintegrated producers are not the basis of competition in any other comparable basic industry. All of the principal sources of steel and copper are integrated producers. There seems to be nothing inherent in the aluminum industry which requires nonintegrated producers.

At the heart of the campaign for nonintegrated producers is the shortage situation. It reflects a laudable desire to assure the small and nonintegrated fabricator of its pro rata share of the limited supply. The Federal Government has met this situation with notable success through CMP controls which direct the flow of aluminum to civilian as well as military fabricators, regardless of whether they are integrated or not. It seems to the committee that such controls are preferable, in times of emergency, to the artificial creation of high-cost nonintegrated producers who would be a burden on the entire industry when the pressure of military demands lessens.

To some extent those advocating nonintegrated production as a means of protecting the small fabricator have confused integration with diversification. To a substantial degree, the difficulties faced by many of the small, nonintegrated fabricators arose because they are one-product plants, because they lack diversification, not because they lack integration. Under CMP a nonintegrated fabricator who could make military as well as civilian products would have more metal for fabrication than an integrated producer-fabricator who could fabricate only nonessential civilian products.

As far as this committee can ascertain the facts, there is nothing inherently detrimental to the public interest in either integrated or nonintegrated production. When it is economically feasible for nonintegrated producers to enter the field, there is no reason why they should be kept out. The same holds true for integrated producers.

ANNEX P

Sources of Reynolds total metal supply [1]

[Millions of pounds]

	(a)	(b)	(c)		(d)	
	Primary metal produced by Reynolds	Primary metal purchased from other domestic producers	Primary metal imported from—		Primary metal received from U. S. Government sources	
			(1) Canada	(2) Elsewhere	(1) RFC and GSA	(2) Other (specify)
1946	186.2	20.9	50.2		63.1	
1947	320.5		.8		4.0	
1948	338.3		13.3		17.9	
1949	365.0		9.4			
1950	433.5		20.9	0.7		
1951	487.0		15.2			
1952	553.2	1.0	23.4		19.4	
1953	665.1	1.9	42.6		4.3	
1954	802.5		3.2			
1955—January	70.1					
February	62.2					
March	70.9					
April	69.4	1.0				
May	72.0					
June	70.5					

	(e)	(g)	(h)	(j)	(k)
	Primary metal purchased from domestic sources other than primary producers	(1 and 2) Recoverable content of scrap	Purchased secondary ingot	Net receipts hardening agents and alloys, semiprocessed and finished metal [2]	Total supply
1946		68.3	3.1	10.5	402.3
1947		20.4	2.2	2.5	350.4
1948		66.8	11.3	4.3	451.9
1949	.5	22.6	12.2	5.4	415.1
1950	3.6	15.9	9.2	9.1	492.9
1951	1.7	19.6	1.8	7.9	533.2
1952	5.6	22.9	2.3	7.7	635.5
1953	16.9	41.1	2.4	13.2	787.5
1954	6.3	22.9	3.6	5.3	843.8
1955—January	.5	2.0	.2	.3	73.1
February	.7	4.1	.4	.8	68.2
March	1.8	4.0	.4	.5	77.6
April	1.3	4.0	.5	1.3	77.5
May	1.0	4.8	.2	1.2	79.2
June	.4	4.0	.5	1.5	76.9

[1] Reference: Questionnaire in letter from Congressman Yates to Maxwell Caskie dated July 11, 1955—Question 1 (*a*) through (*k*).

[2] Gross receipts of hardening agents and alloys, semiprocessed and finished metal has been reduced by the amount of hardening agents added in reduction cells as this quantity has been reported in primary metal production.

Source: Operating records.

ANNEX Q

Distribution of Reynolds total supply of metal [1]

[Millions of pounds]

	(a)	(b)	(c) Sold as primary metal to U. S. Government			
	Processed in fabricating plants or added to fabricating plant inventories	Sold as primary metal in pig, ingot, or billet form to domestic nonintegrated users	(1) Stockpile under GSA contracts per request by GSA	(2) Pursuant to Reynolds request to take aluminum under GSA contracts	(3) Other purposes, if any	(4) Total
1946	390.5	9.0				
1947	327.8	11.2				
1948	425.6	17.9				
1949	337.4	29.1				
1950	392.9	67.0				
1951	430.8	77.0				
1952	489.9	119.5				
1953	557.8	142.6				
1954	465.8	135.5				
1955—January	40.2	13.8				
February	40.7	14.0				
March	48.3	16.8				
April	48.3	14.9				
May	53.8	14.5				
June	49.4	15.8				

[1] Questionnaire in letter from Congressman Yates to Maxwell Caskie dated July 11, 1955—Question 2 (a) through (g).

Source: Operating records.

	(f) Otherwise distributed			(g)
	Primary pig, ingot, and billet		(3) Secondary pig and ingot	Total supply distributed
	(1) Domestic integrated producers	(2) Export		
1946	5.0		3.3	
1947		6.6	7.0	
1948			6.8	
1949	.9	12.2	7.1	
1950		.4	26.3	
1951	.1	.1	2.1	
1952	4.1	1.6	11.3	
1953	6.2	4.0	18.2	
1954		4.0	18.6	
1955—January		.5	2.3	
February		.1	2.5	
March			1.7	
April	1.0	.3	1.8	
May		.6	2.0	
June		.4	2.4	

ANNEX Q (PT. H)

Division of Reynolds total supply of metal as shown Annex "P", column (g) [1]

[Millions of pounds]

	Exports of primary pig, ingot or billet (1)	Exports of secondary or recoverable content of scrap (2)	Exports of other products (3)	All domestic disposal of metal (4)
1946			21.2	304.3
1947	6.6		45.4	344.9
1948			39.9	386.8
1949	12.2		29.0	341.3
1950	.4		14.8	468.9
1951	.1		4.6	528.4
1952	1.6		1.9	588.3
1953	4.0		6.9	693.3
1954	4.0		4.1	804.8
1955—January	.5		.4	74.4
February	.1		1.1	65.9
March			.4	76.5
April	.3		.9	70.1
May	.6		.4	70.5
June	.4		.9	83.3

[1] Questionnaire in letter from Congressman Yates to Maxwell Caskie dated July 11, 1955—Question 2 (h) pts. (1) through (4).

Source: Operating Records.

ANNEX R

Production and obligations under Korean expansion contracts prior to July 1, 1955 [1]

[Millions of pounds]

	Production from capacity subject to contract provision (a)	Computed equivalent to the 2/3 to be available for Government and nonintegrated users combined, after any prior allocation (b)	Amount of metal assigned to Government call [2] (c)	Amount of metal computed by Reynolds as required to be offered to nonintegrated users (d)	Primary metal in pig, ingot, or billet form sold to domestic nonintegrated users (e)	Primary production processed in fabricating plants or added to fabricating plant inventories (f)
1952:						
3d quarter	1.4	[3]	0	[3]	27.0	114.7
4th quarter	30.4	[3]	0	[3]	32.8	112.0
Total	31.8	[3]	0	[3]	59.8	235.7
1953:						
1st quarter	42.1	[3]	0	[3]	36.1	117.2
2d quarter	38.6	[3]	2.7	[3]	32.5	123.4
3d quarter	40.9	20.4	12.0	8.4	37.2	117.2
4th quarter	49.0	25.5	16.6	8.9	36.8	103.2
Total	170.6	----------	31.3	----------	142.6	461.0
1954:						
1st quarter	51.3	30.5	44.0	0	26.8	102.1
2d quarter	75.9	45.3	61.7	0	30.9	107.7
3d quarter	80.4	48.7	61.6	0	32.0	124.4
4th quarter	83.3	51.2	55.9	0	45.8	115.0
Total	290.9	175.7	223.2	0	135.5	449.2
1955:						
1st quarter	80.9	49.7	44.2	5.5	44.6	122.5
2d quarter	88.3	53.4	25.9	27.5	45.2	138.7
Total	169.2	103.1	70.1	33.0	89.8	261.2

[1] Reference: Questionnaire in letter from Congressman Yates to Maxwell Caskie dated July 15, 1955, question 1 (a) through (d).

[2] Represents actual delivery to stockpile regardless of calendar quarter for which call was issued. Reynolds Metals Co., under these contracts, has consistently reported on a delivery rather than a call basis.

[3] Prior to June 30, 1953, all aluminum production and shipments were under the direction of the National Production Authority.

Contract starting dates:

1. GS-OOP(D), 12008, Oct. 26, 1952.
2. GS-OOP(D), 12202, Sept. 26, 1952.
3. GS-OOP(D), 12214, Mar. 27, 1954.

Source: Operating records.

ANNEX R–1

Production and obligations under Korean expansion contracts subsequent to July 1, 1955 [1]

[Millions of pounds]

	Capacity subject to contract provison (a)	Assuming no prior allocations from such capacity amount equal to ¾ capacity to be available for Government call and non-integrated users combined (b)	Amount resulting from changeover in formula to point where 25 percent amount applies to each contract to be offered to non-integrated users (c)
1955:			
3d quarter	92.1	61.4	
4th quarter	92.1	61.4	
Total	184.2	122.8	
1956:			
1st quarter	90.1	60.1	
2d quarter	91.1	60.7	
3d quarter	92.1	61.4	
4th quarter	92.1	61.4	
Total	365.4	243.6	
1957:			
1st quarter	90.1	60.1	
2d quarter	91.1	60.7	
3d quarter	92.1	61.4	
4th quarter	92.1	61.4	
Total	365.4	243.6	
1958:			
1st quarter	86.6	57.7	.9
2d quarter	32.7	21.8	14.6
3d quarter	30.2	20.1	15.5
4th quarter	30.2	20.1	15.5
Total	179.7	119.7	46.5
1959:			
1st quarter	29.6	19.7	15.1
2d quarter	13.4	8.9	19.4
Total	43.0	28.6	34.5

[1] Reference: Questionnaire in letter from Congressman Yates to Maxwell Caskie dated July 15, 1955—Question No. 2 (a) through (c).

Source: Operating records.

ANNEX S

Sales of semifabricated metal to nonintegrated users [1]

[Thousands of pounds]

	Reroll sheet	Reroll foil	Redraw rod	Forging stock	Tube blooms
1953	12,373	12,447	6,814	[2] 7,757	1,393.
1954	6,792	13,787	3,146	[2] 3,317	No shipment.
1955:					
January	656	1,594	278	376	Do.
February	363	917	787	202	Do.
March	944	1,975	129	243	Do.
April	720	1,559	698	173	Do.
May	610	1,663	103	660	Do.
June	275	1,974	701	869	Do.

[1] Reference: Questionnaire in letter from Congressman Yates to Maxwell Caskie dated July 11, 1955, question No. 2, Supplemental to Revised Table 2, pt. (a).

[2] Operating records do not disclose total figure; this quantity is believed to cover upwards of 90 percent total shipments.

Source: Operating records.

ANNEX T

AMENDMENT TO APPLICATION OF REYNOLDS METALS CO. FOR PRICE RELIEF FOR THE ALUMINUM INDUSTRY

The Reynolds Metals Co. hereby amends its original application by substituting the attached page for page 5 [1] of its original application. In its original application on page 4, Reynolds referred to "imminent cost increases on power and raw materials." Reynolds has just reached an agreement which will result in the immediate increase of its power costs to the extent that the figure of 2.4 cents per pound and the figure of 4.2 cents per pound, as used on page 5, will now be 2.6 cents per pound and 4.4 cents per pound.

Respectfully submitted.

REYNOLDS METALS CO.,
RICHARD S. REYNOLDS, Jr., *President.*

"Contractor's published market price shall represent the cost of production (exclusive of the amount of accelerated amortization in excess of normal depreciation) plus a reasonable profit, and that contractor's profit existing at this time is a reasonable profit."

The price of pig aluminum as of the effective date of the supply contract was 18 cents per pound. The present price of pig aluminum is still 18 cents per pound, whereas the average cost of production based on the first quarter, 1952, as adjusted for imminent wage increases and the recent increase in freight rates and power costs, is approximately 2.6 cents per pound higher than for the fourth quarter 1950.

The estimated increase in average cost of 2.6 cents per pound covers the company's plants which were in operation during the first quarter of 1952. The company has plants under construction which will increase its capacity by approximately 50 percent. The depreciation (at regular rates) and interest expense in connection with these new plants will be substantially in excess of the amounts of such items presently included in the average cost of current production. If the depreciation (at regular rates) and interest expense in connection with the new plants are averaged into all production, the current cost as adjusted, at the existing plants will be increased an additional 1.8 cents per pound, or a total of 4.4 cents per pound.

4. A realistic price is necessary to continue in the future the twin benefits of this rapid-growth industry: Expanded production and low price

At the request of the Government since Korea, this already greatly expanded industry is being further expanded by 100 percent. The industry is spending between $600 million and

[1] See p. 530 of this Annex T.

Application of Reynolds Metals Co. for Price Relief for the Aluminum Industry

The Reynolds Metals Co. (herein called Reynolds), Reynolds Metals Building, Richmond 19, Va., and its subsidiaries, are engaged in the production and fabrication of aluminum.

Reynolds hereby applies for an increase of 2 cents in the base price of primary aluminum and a 10 percent increase in the price of semifabricated and fabricated aluminum. This relief may be granted either (1) through appropriate changes in the general ceiling price regulation and ceiling price regulations 22, 30, 54, 60, 61, 67, 110, 118, 119, and 121, or (2) under the provisions of section 3 (b) (2) of general overriding regulation No. 29.

Reynolds is now negotiating with representatives of it employees for an increase in wages through a new contract which will cover an extended period of time. The wage question must be settled without delay but wage increases cannot be granted unless the requested price increases are also granted. The price relief sought by this application is made necessary by the accumulation of cost increases since the latter part of 1950, as well as by the pending wage increases.

The facts of the applicant's beusiness, and of the aluminum industry, fully justify the requested price relief:

1. Aluminum is a strong counterinflationary force

A. *The price of aluminum is 10 percent below 1939.*—The present price of the lowest form of aluminum offered to the public commercially is 18 cent per pound. The price in 1939, when present inflationary period started with the outbreak of war in Europe, was 20 cents per pound. In spite of the inflationary spiral of World War II, of the postwar period, and of the post-Korean period, today's price of aluminum is 2 cents per pound lower than the 1939 price—a decrease of 10 percent. It is significant that during this time (from 1939 to July 18, 1952) the price of steel has increased 87 percent; copper 120 percent; lead 214 percent; zinc 187 percent; and all commodities 122 percent.

The aluminum industry is unique as to price. This was recognized by the Joint Committee on Defense Production in its progress report No. 20 (June 30, 1952, p. 12):

"Meanwhile, Reynolds Metals Co. had entered into the industry in 1940. This resulted in substantially lower prices for primary aluminum pig. In fact, *the price of aluminum today is below 1939 levels. That can be said of aluminum alone among all existing metals of wide usage.*" (Emphasis supplied here and throughout this application.)

B. *1939–1953: A tenfold increase in aluminum production.*—In 1950, the year of Korea, aluminum production was five times what it was in 1939. At the request of the Government, the industry is now in the midst of another great expansion (joint committee's report, p. 12):

"American producers since Korea have expanded their capacity almost 100 percent at a cost to them of over $600 million."

By the end of next year aluminum production will be 10 times what it was in 1939, when the war started in Europe.

Aluminum is an industry of abundance not of scarcity. It has supplied a great antidote to inflation: Production, and more production. This tremendous expansion program places aluminum in a class all by itself—since 1939, lead production has decreased 2 percent; copper production has increased only a nominal 24 percent; zinc only 73 percent; and even steel only 99 percent. The 1,000 percent increase in aluminum production is without parallel.

An increase in the ceiling price would benefit the present expansion program and would assist further expansion needed to meet the increasing requirements of the combined demands of the military and civilian economies. This expansion means even greater production. Greater production necessarily creates further counterinflationary forces since the industry must keep its prices at a level which will not only maintain old markets but develop new ones.

2. The OPS freeze caught the aluminum industry with its prices out of balance with its costs

During this same period of a fivefold (now nearing a tenfold) increase in production, when its price is still 10 percent below that of 1939, the costs of the aluminum industry have been rising rapidly. Its raw materials have increased 61 percent; its labor costs 133 percent;[1] and its freight costs 80 percent. Reynolds costs have

[1] This is industry cost without fringes: Reynolds increase with fringes is 150.3 percent.

closely paralleled those of the industry. In addition to imminent cost increases on power and raw materials, Reynolds and the industry now face a further increase in labor rates.

3. Price relief is necessary in order to restore the reasonable profit margin agreed on by Reynolds and by the Government

Under date of December 19, 1950, Reynolds entered into a supply contract with the Government through the General Services Administration. Article XI of this contract contains the following clause:

"ARTICLE XI (b). In the event that price controls are placed upon aluminum by the Government which result in Contractor's inability to earn a reasonable profit from the operation of the additional facilities and, after reasonable efforts, contractor is unable to obtain relief from such price controls to the extent that such price controls cause such inability, then Contractor shall have the right to terminate the contract * * *.

"For the purpose of this subparagraph (b), it *is the understanding of the parties* that Contractor's published market price shall represent the cost of production (exclusive of the amount of accelerated amortization in excess of normal depreciation) plus a reasonable profit, and *that Contractor's profit existing at this time is a reasonable profit.*"

The price of pig aluminum as of the effective date of the supply contract was 18 cents per pound. The present price of pig aluminum is still 18 cents per pound, whereas the average cost of production based on the first quarter, 1952, as adjusted for imminent wage increases and the recent increase in freight rates, is approximately 2.4 cents per pound higher than for the fourth quarter 1950.

The estimated increase in average cost of 2.4 cents per pound covers the company's plants which were in operation during the first quarter of 1952. The company has plants under construction which will increase its capacity by approximately 50 percent. The depreciation (at regular rates) and interest expense in connection with these new plants will be substantially in excess of the amounts of such items presently included in the average cost of current production. If the depreciation (at regular rates) and interest expense in connection with the new plants are averaged into all production, the current cost as adjusted, at the existing plants will be increased an additional 1.8 cents per pound, or a total of 4.2 cents per pound.

4. A realistic price is necessary to continue in the future the twin benefits of this rapid-growth industry: Expanded production and low price

At the request of the Government since Korea, this already greatly expanded industry is being further expanded by 100 percent. The industry is spending between $600 million and $700 million on this expansion, financed chiefly on borrowed capital. Reynolds Metals Co.'s part is over $200 million. In connection with this expansion program, the Joint Committee on Defense Production reported:

"All domestic production is privately financed. American producers since Korea have expanded their capacity almost 100 percent at a cost to them of over $600,000,000 . . ." (p. 12).

"*Primary producers of aluminum in this country have not counted the risks involved in doubling the national capacity at the request of the Government*" (p. 13).

The postwar dividends paid by the aluminum industry have been relatively very low since most of its net profit after taxes has been plowed back into new capacity. The industry has constantly modernized and improved. It is young, dynamic, and fast growing. More new postwar opportunities for small business have been created by it than by any other metal industry.

But to have the means to continue to improve its technology, to have the earnings to plow back into new capacity, and, above all, to be able to attract new capital at low rates, its prices must be realistic in order that its profits may be reasonable. Only in this way can it continue to expand its capacity.

5. The present unrealistic price of aluminum is a serious handicap to the present expansion program and discourages new producers from entering the aluminum production field

The dramatic decrease in the profit margin on aluminum since the present expansion was undertaken at the end of 1950 has imposed a serious handicap. The important public interest served by the expansion not only justifies, but actually requires, an increase in the price of aluminum.

Recognition of the extent to which the low price of aluminum is a deterrent in seeking new producers in the field is the following quotation from page 12 of the Joint Committee's report:

"Notwithstanding the difficulties surrounding the establishment of a producer of primary aluminum on a nonintegrated basis—and the difficulties are great due to the large investment required compared to *the relatively low price of the metal* in pig form * * *."

In 1951 the Attorney General of the United States took the position that the price of pig aluminum—18 cents per pound, still the prevailing price—was so low as to be unrealistic and that it had the effect of discouraging newcomers from entering the aluminim production field. He referred to the fact that aluminum, different from other metals and basic materials, was priced not higher but actually lower than prior to World War II.

Reynolds agrees that the present price of aluminum, so handicapping to the present expansion program by experienced producers, is almost prohibitive to newcomers. Reynolds agrees that price should be increased so that price itself would not be a deterrent to others to enter the field. Furthermore, an increase is more than justified by reason of the cost increase in the industry since December 1950, and because of the debt obligation which, at the request of the Government, Reynolds had assumed in order to increase its production for the defense effort.

6. Aluminum is a strategic metal vital to defense. Price relief will insure a steady flow of production

Aluminum is strategic to the defense program. Bauxite, from which aluminum is produced, is listed as a "strategic mineral" in section 450 (b) of the Internal Revenue Act. Aluminum is included in the Munition Board's A list of strategic and critical materials (for stockpiling). Aluminum is vital, not only to aircraft production, but to many other items of armament, and is essential to our basic civilian economy.

At the present time wage negotiations are being held within the industry. This application for price relief should be considered, in light of these wage negotiations, and in conformity with the following provisions of section 403 (d) of the Defense Production Act:

"SECTION 403 (d). It shall be the express duty, obligation, and function of the present Economic Stabilization Agency, or any successor agency, to coordinate the relationship between prices and wages, and to stabilize prices and wages."

Until the additional aluminum producing facilities now under construction are completed, there will continue to be a shortage of aluminum. A continued flow of aluminum production is imperative. The wage problem within the industry is imminent and must be settled promptly in order to insure a steady output of this strategic material. In the light of pending wage negotiations prompt approval will prevent the occurrence of a situation similar to that just ended in the steel industry.

7. A price increase for the aluminum industry is in conformity with the intent of Congress

Section 4C1 of the Defense Production Act states the purposes which are to be achieved by that act. Included within that section are the following:

(*a*) *"To promote the national defense"*. Since 1950, the year of Korea, the aluminum industry has undertaken a 100 percent expansion at the request of the Government. Aluminum is one of the most strategic of strategic metals.

(*b*) *"To prevent inflation"*. Great production and low price have provided a strong counterinflationary force. Even with the inflationary spiral since 1939, the price of aluminum is now 2 cents per pound lower than in 1939.

(*c*) *"To eliminate and prevent profiteering, hoarding, * * * resulting from * * * scarcities"*. The tremendous expansion program now under way will help counteract these evils. New producers may be attracted into the field. Increased production is the only remedy for the evils caused by scarcities.

(*d*) *"To prevent economic disturbances, labor disputes, interferences with the effective mobilization of national resources"*. The wage problem within the industry must be settled promptly. Consideration of this request for a price increase in the light of the pending wage demands will assure the uninterrupted flow of aluminum.

(*e*) *"The authority conferred by this title shall be exercises * * * with full consideration and emphasis, so far as practicable, on the maintenance and furtherance of the American system of competitive enterprise."* The prevailing price of aluminum is so law as to be unrealistic and has the effect of discouraging the entry of new competitors into the aluminum production field.

Section 402 (c) of the Defense Production Act requires the President "so far as practicable" to: *"give due consideration to * * * general increase or decreases in cost of production, distribution and transportation and general increases or decreases in profits earned * * * subsequent to June 24, 1950 * * *."*

The section further provides: *"The President, in establishing and adjusting ceilings * * * shall make such adjustments as he deems necessary to prevent or correct hardships or inequities."*

The requested price increase for aluminum is clearly required by the facts as construed in the light of these expressions of congressional intent. The present price of aluminum is lower than the 1939 price, yet present costs have risen dramatically since that time. Reynolds is not receiving the reasonable profit margin, as recognized by the Government in the supply contract.

CONCLUSION

For the foregoing reasons, Reynolds respectfully petitions that the Office of Price Stabilization authorize, at the earliest possible date, an increase of 2 cents in the base price of primary aluminum, and a 10 percent increase in the price of semi-fabricated and fabricated aluminum.

Respectfully submitted.

REYNOLDS METALS CO.,
By RICHARD S. REYNOLDS, JR.
President.

ANNEX U

Prices: January 1949 through June 1955 [1]

Product: Aluminum pig.
Grade: 99.0 percent minimum purity.
Size: 1–50 pounds.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.160	10,000
May 23, 1950	.165	10,000
Sept. 29, 1950	.180	10,000
Aug. 4, 1952	.190	10,000
Jan. 23, 1953	.195	10,000
July 20, 1953	.200	10,000
Aug. 6, 1954	.205	10,000
Jan. 10, 1955	.215	10,000

Product: Aluminum ingot.
Grade: 99.0 percent minimum purity.
Size: 3–30 pounds.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.170	10,000
May 23, 1950	.175	10,000
Sept. 29, 1950	.190	10,000
Aug. 4, 1952	.200	10,000
Jan. 23, 1953	.205	10,000
July 20, 1953	.215	10,000
Aug. 6, 1954	.222	10,000
Jan. 10, 1955	.232	10,000

Product: Cold mold extrusion billets.
Alloy: 6063.
Size: 4 7/16-inch diameter by 22-inch length.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.188	10,000
May 23, 1950	.193	10,000
Sept. 29, 1950	.215	10,000
Aug. 4, 1952	.226	10,000
Nov. 3, 1952	.219	10,000
Jan. 23, 1953	.228	10,000
July 20, 1953	.236	10,000
Aug. 6, 1954	.245	10,000
Jan. 10, 1955	.255	10,000

[1] Reference: Questionnaire annexed to Chairman Yates' letter to Mr. Caskie, dated July 11, 1955 (question No. 3 (a)).

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (PIG, INGOT, AND EXTRUSION BILLET STOCK), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through March 31, 1949: Free on board point of shipment. No freight allowed.

April 1, 1949, through October 31, 1953: Free on board point of shipment, Freight allowed to the extent of the lowest published carload rail freight rate.

November 1, 1953, through June 1955: Free on board point of shipment. Freight allowed to the extent of the rail rate applicable to the lowest published carload minimum weight,

Product: Aluminum sheet reroll stock.
Alloy: 3003-F.
Size: 0.125-inch gage by 18-inch widths and over by coils.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.208	30,000
June 1, 1950	.213	30,000
Oct. 4, 1950	.237	30,000
Aug. 4, 1952	.249	30,000
Jan. 23, 1953	.259	30,000
July 23, 1953	.265	30,000
Aug. 7, 1954	.272	30,000
Jan. 13, 1955	.282	30,000

Product: Aluminum foil reroll stock.
Alloy: 99.35 percent purity—F.
Size: 0.026-inch gage by 12-inch widths and over by coils.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.226	30,000
June 1, 1950	.231	30,000
Oct. 4, 1950	.257	30,000
Aug. 4, 1952	.270	30,000
Jan. 23, 1953	.281	30,000
July 23, 1953	.289	30,000
Aug. 7, 1954	.297	30,000
Jan. 13, 1955	.307	30,000

Product: Aluminum redraw rod.
Alloy: EC–H12.
Size: ⅜-inch diameter by coils.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Aug. 2, 1949 (first made available)	$0.225	30,000
Feb. 15, 1950	.220	30,000
June 1, 1950	.230	30,000
Sept. 8, 1950	.235	30,000
Oct. 5, 1950	.240	30,000
Aug. 4, 1952	.252	30,000
Jan. 23, 1953	.262	30,000
Aug. 10, 1954	.270	30,000
Jan. 13, 1955	.280	30,000

Product: Aluminum forging stock, class I.
Alloy: 2218–F.
Size: 8-inch diameter by multiple lengths.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.2975	30,000
Nov. 15, 1949	.2675	30,000
June 1, 1950	.2725	30,000
Sept. 13, 1950	.2925	30,000
Dec. 7, 1950	.3025	30,000
Aug. 4, 1952	.3171	30,000
Jan. 23, 1953	.3304	30,000
July 23, 1953	.3420	30,000
Aug. 10, 1954	.3590	30,000
Jan. 13, 1955	.3690	30,000

Product: Aluminum coiled sheet, mill finish, 0.032 inch.
Alloy: 3003–H14.
Size: 24 inches wide.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.270	30,000
June 1, 1950	.275	30,000
Oct. 4, 1950	.302	30,000
Aug. 4, 1952	.317	30,000
Jan. 23, 1953	.330	30,000
July 23, 1953	.340	30,000
Aug. 7, 1954	.350	30,000
Jan. 13, 1955	.360	30,000

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (SHEET AND WIRE, ROD AND BAR PRODUCTS), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through June 20, 1949: Free on board point of shipment. Freight allowed to the extent of the lowest published carload rail freight rate.

June 21, 1949, through June 1955: Free on board point of shipment. Full freight allowed.

Product: Extruded solid shapes.
Alloy: 6063–T6.
Size: 3–30 feet by 1.500 pounds per foot.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.360	30,000
Sept. 5, 1950 [1]	.383	30,000
May 21, 1952	.367	30,000
Aug. 4, 1952	.385	30,000
Jan. 23, 1953	.400	30,000
July 23, 1953	.411	30,000
Sept. 8, 1953	.406	30,000
Feb. 1, 1954	.396	30,000
Aug. 10, 1954	.409	30,000
Jan. 13, 1955	.419	30,000

[1] Basis of price changed from difficulty factor 40 and weight per foot to pricing factor 17 and weight per foot.

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (EXTRUDED SHAPES), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through June 1955: Free on board point of shipment. Full freight allowed.

Product: 0.00035-inch gage foil

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.580	30,000
June 1, 1950	.590	30,000
Sept. 30, 1950	.635	30,000
Aug. 4, 1952	.665	30,000
Jan. 23, 1953	.690	30,000
July 27, 1953	.705	30,000
Aug. 10, 1954	.720	30,000
Jan. 13, 1955	.730	30,000

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (FOIL PRODUCTS), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through June 1955: Free on board point of shipment. Full freight allowed.

Product: Aluminum cable, steel-reinforced.
Code: Swanate.
Size: No. 4–7/1 on reels.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.2590	30,000
Jan. 2, 1950	.2269	30,000
Feb. 15, 1950	.2403	30,000
Sept. 8, 1950	.2503	30,000
Oct. 12, 1950	.2550	30,000
Aug. 4, 1952	.2678	30,000
Jan. 23, 1953	.2785	30,000
Feb. 6, 1953	.2763	30,000
Aug. 3, 1953	.2865	30,000
Mar. 19, 1954	.2810	30,000
Aug. 17, 1954	.2940	10,000
Jan. 13, 1955	.3000	10,000
June 28, 1955	.3000	20,000

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (ELECTRICAL CONDUCTOR CABLE), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through February 14, 1950: Free on board point of shipment. No freight allowed.

February 15, 1950, through June 1955: Free on board point of shipment. Full freight allowed.

Product: Aluminum drawn round wire, coiled
Alloy: 6061–T93 (T91)
Size: 0.146-inch diameter by coils

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.375	30,000
June 1, 1950	.380	30,000
Oct. 5, 1950	.415	30,000
Aug. 4, 1952	.436	30,000
Jan. 23, 1953	.454	30,000
July 23, 1953	.466	30,000
Aug. 10, 1954	.486	30,000
Jan. 13, 1955	.496	30,000

Product: Aluminum cold-finished rod.
Alloy: 2024–T4.
Size: 15/16-inch diameter by standard 12-foot straightened lengths.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.385	30,000
June 1, 1950	.390	30,000
Oct. 5, 1950	.420	30,000
Aug. 4, 1952	.441	30,000
Jan. 23, 1953	.459	30,000
July 23, 1953	.468	30,000
Aug. 10, 1954	.483	30,000
Jan. 13, 1955	.493	30,000

Product: Aluminum cold-finished hexagonal bar.
Alloy: 2024–T4.
Size: 1½-inch hexagonal by standard 12-foot straightened lengths.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.405	30,000
June 1, 1950	.410	30,000
Oct. 5, 1950	.440	30,000
Aug. 4, 1952	.462	30,000
Jan. 23, 1953	.481	30,000
July 23, 1953	.487	30,000
Aug. 10, 1954	.509	30,000
Jan. 13, 1955	.519	30,000

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (SHEET AND WIRE, ROD AND BAR PRODUCTS), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through June 20, 1949: Free on board point of shipment. Freight allowed to the extent of the lowest published carload rail freight rate.
June 21, 1949, through June 1955: Free on board point of shipment. Full freight allowed.
Product: Extruded irrigation tubing.
Size: 4 inches by standard lengths of 16, 20, 30 and 40 feet.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.419	30,000
June 1, 1949	.398	30,000
June 2, 1950	.403	30,000
Oct. 9, 1950	.387	30,000
Aug. 4, 1953	.406	30,000
Jan. 23, 1953	.422	30,000
July 24, 1953	.435	30,000
Sept. 15, 1954	.455	30,000
Jan. 13, 1955	.465	30,000

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (EXTRUDED TUBING), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through June 1955: Free on board point of shipment. Full freight allowed.
Product: Aluminum paste.
Grade: No. 30.
Drum: 200 pounds.

Effective price date	Base list price per pound	Base quantity (pounds)
As of—		
Jan. 1, 1949	$0.355	30,000
June 15, 1951	.370	30,000
Aug. 25, 1952	.390	20,000
Mar. 1, 1955	.40	20,000

TRANSPORTATION ALLOWANCE APPLICABLE TO ABOVE BASE QUANTITY (ALUMINUM PASTE), JANUARY 1949 THROUGH JUNE 1955

January 1, 1949, through June 1955: Free on board point of shipment. Full freight allowed.

ANNEX V

Toll Charges,[1] January 1949 Through June 1955

Where the material delivered to Reynolds Metals Co. was for conversion, the charge to the customer for the tolling operation was computed as follows:
(1) Apply Reynolds current list price (including all applicable price extras or deductions) for the finished mill product involved.
(2) Deduct from (1), the current Reynolds list price of 99 percent minimum purity pig.
(3) To the difference of (1) and (2), add conversion factor charge from schedule listed below.
(4) Total of above determines the toll charge.

[1] Reference: Questionnaire in letter from Congressman Yates to Maxwell Caskie, dated July 11, 1955, question 3 (a), pt. (2).

Conversion factors, primary aluminum pig or segregated aluminum scrap f. o. b. Reynolds Metals Co. plant

	September 1950	October 1950	Nov. 1, 1950	Apr. 13, 1951	June 1951	Sept. 10, 1954, through June 1955 *
Primary aluminum pig, 99 percent.	$0.005	$0.005	$0.014	$0.010 to $0.0105	0	0
Segregated scrap		.005	.024	$0.015 to $0.0155	(1)	(1)

1 See the following table:

	June 1951 *	Sept. 10, 1954, through June 1955 *
Conversion into sheet products:		
Loose scrap too heavy to briquette	$0.02	$0.02
Briquetted scrap 0.006 and heavier, minimum briquette 25 pounds	.02	.02
Baled scrap 0.006 and heavier, suitable for briquette	.025	.025
Loose or packaged scrap, suitable for briquette	.03	.03
Conversion into products other than sheet products:		
RSI	.003	
Sheet scrap briquetted	.0125	.015
Sheet scrap too heavy to briquette	.0125	.015
Sheet scrap baled	.015	.020
Sheet scrap packaged	.0175	.0225
Sheet scrap loose	.0175	.0225
Extrusion scrap butt ends	.0100	.11
Extrusion scrap briquetted	.0125	.016
Extrusion scrap too heavy to briquette	.0125	.016
Extrusion scrap baled	.015	.020
Extrusion scrap packaged	.0175	.024
Extrusion scrap loose	.0175	.024
Tubing scrap briquetted	.02	
Tubing scrap loose	.03	
Rod bar scrap	.015	
Wire scrap briquetted	.015	
Wire scrap baled	.0225	
Wire scrap packaged	.0225	
Wire scrap loose	.025	
Foil scrap briquetted 0.001 and heavier	.025	
Foil scrap briquetted 0.001 and lighter	.0375	
Foil scrap baled 0.001 and heavier	.03	
Foil scrap baled 0.001 and lighter	.045	
Foil scrap packaged 0.001 and heavier	.035	
Foil scrap packaged 0.001 and lighter	.05	
Borings and turnings	.06	

* Additional charges applicable as follows:

1. For scrap received segregated as to type but mixed as to alloy, add $0.0175 per pound to segregated material of the same type.
2. For scrap received segregated as to alloy but mixed as to type, the highest scrap conversion factor applicable to any type included in the shipment will apply to the entire shipment, provided the shipment is not so loaded as to permit segregation and weighing of the individual types.
3. For scrap received mixed as to type and mixed as to alloy, add $0.0175 per pound to highest scrap conversion factor as outlined in 2.
4. For clean colored foil scrap segregated as to alloy and type, add $0.010 per pound to scrap conversion factors as listed for conversion into sheet products.

ANNEX W

IMMEDIATE RELEASE

LOUISVILLE, Ky., August 6:—Reynolds Metals Co. announced today new price schedules, effective immediately. The base price for primary aluminum pig is increased 1 cent per pound, bringing new prices to 22.5 cents a pound. Standard 99 percent plus ingot is now 24.4 cents, up from 23.2 cents, with other grades rising correspondingly.

Sheet and plate prices reflect an increase of about 4½ percent. Price advances for other fabricated products, including extrusions, also average about 4½ percent.

Quantity extras have also been raised, but most of the new mill product price schedules are on a delivered basis, with full freight allowed within continental United States.

ANNEX X

ESTIMATES OF UNITED STATES ALUMINUM DEMAND [1]

SEPTEMBER 10, 1954.

Your reference 317

Dr. GEORGE PERKINS,
Director, Aluminum and Magnesium Division,
Business and Defense Services Administration,
Department of Commerce, Washington, D. C.

DEAR DR. PERKINS: This is with further reference to your letter of August 17, 1954, addressed to Mr. Keith Hall, requesting Reynolds Metals Co.'s current estimates of civilian consumption of aluminum for the years 1955–58.

I am advised by Reynolds Metals Co.'s economic research division that it currently estimates civilian demand 1955–58 will be substantially the same as the estimates given in February 1954 to Mr. E. A. Harris, of ODM, and in April 1953 to NPA. These estimates were:

[Billions of pounds]

Year	February 1954 estimates	April 1953 estimates
1955	2.7	2.8
1956	2.9	2.9
1957	3.1	3.1
1958	3.3	3.3

With best wishes, I am
Yours very truly,

MAXWELL CASKIE.

DEPARTMENT OF COMMERCE,
BUSINESS AND DEFENSE SERVICES ADMINISTRATION,
Washington, February 17, 1955.

REYNOLDS METALS CO.,
World Center Building,
Washington, D. C.
(Attention: Mr. Maxwell Caskie, Jr.)

GENTLEMEN: This is to inform you that the following estimates of 1955 tota industry demand for aluminum shipments (excluding stockpile) were received from the three integrated producers.

[Millions of pounds]

	Alcoa (as revised)	Reynolds	Kaiser
1st quarter	825	845	950
2d quarter	850	850	855
3d quarter	800	845	800
4th quarter	850	920	850
Total	3,325	3,460	3,455

The figures which this division are considering are as follows for the 4 quarters: 850, 860, 800, and 850 or a total of 3,360 million pounds.

Very truly yours,

A. A. SNOW,
Assistant Director,
Aluminum and Magnesium Division.

[1] Reference: Questionnaire in letter from Congressman Yates to Maxwell Caskie, dated July 11, 1955, Question No. 4.

ANNEX Y

PURCHASING PRICE OF THE DOLLAR

The purchasing price of the dollar (wholesale prices) was 195.7 in 1940 but had fallen to 90.4 in July, 1955.

Had aluminum prices followed a like trend, the initial 1940 price of 20 would have risen to 43.3 cents per pound presently.

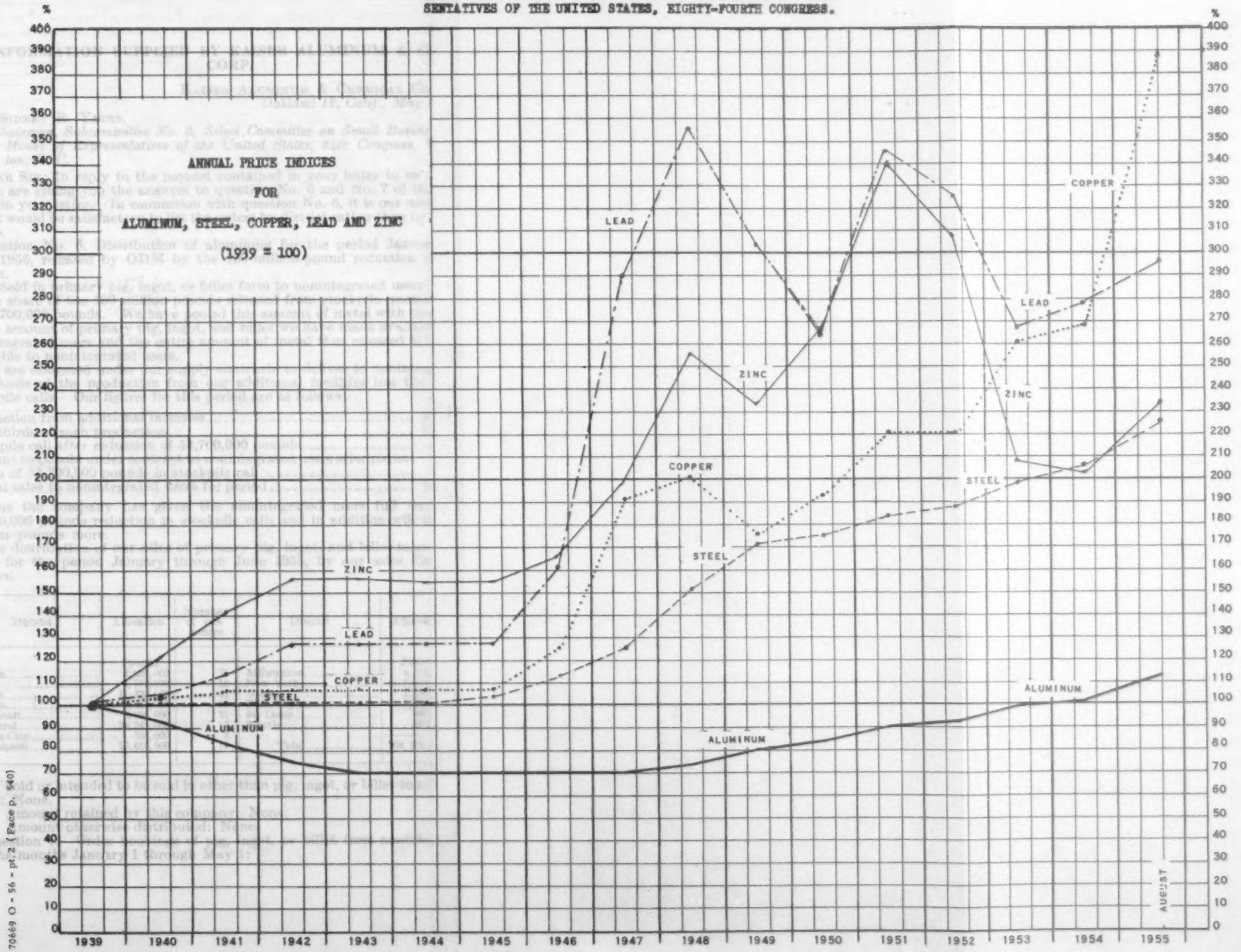
Purchasing power of the dollar

	Consumer prices	Wholesale prices
1940	166.9	195.7
1950	97.3	97.0
1955 (July)	87.2	90.4

ANNEX "2"

TO

RESPONSES OF REYNOLDS METALS COMPANY TO QUESTIONS BY THE HONORABLE SIDNEY R. YATES, CHAIRMAN, SUB-COMMITTEE NO. 3, SELECT COMMITTEE ON SMALL BUSINESS OF THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES, EIGHTY-FOURTH CONGRESS.



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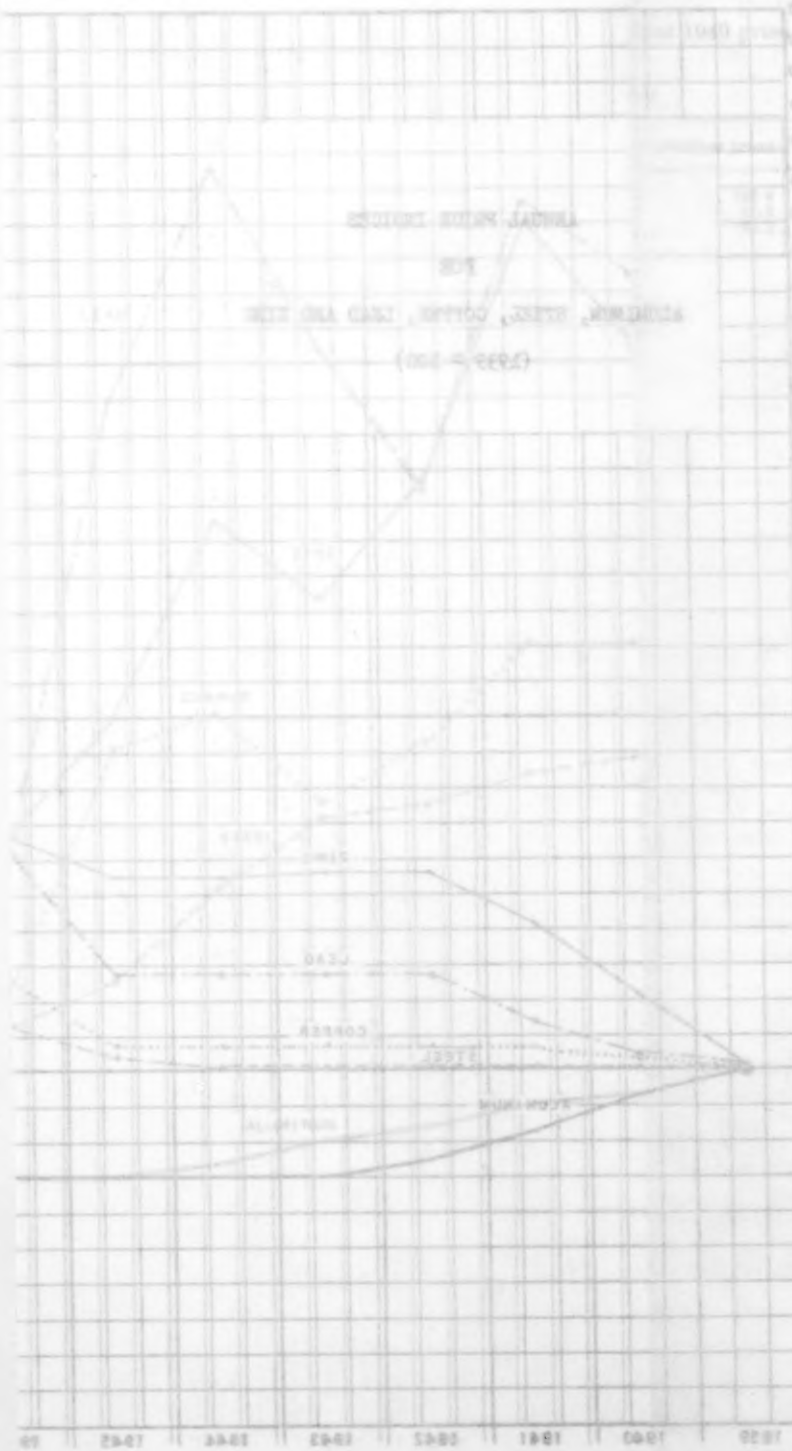

(3) INFORMATION SUPPLIED BY KAISER ALUMINUM & CHEMICAL CORP.

KAISER ALUMINUM & CHEMICAL CORP.,
Oakland 12, Calif., May 19, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business of the House of Representatives of the United States, 84th Congress, Washington, D. C.

DEAR SIR: In reply to the request contained in your letter to us dated May 13, we are giving you the answers to question No. 6 and No. 7 of the questions listed in your letter. In connection with question No. 6, it is our understanding that it would be satisfactory to list the orders by district rather than by customers' names.

Question No. 6. Distribution of aluminum for the period January through June 1955, released by ODM by the 150-million-pound reduction in stockpile quotas.

A. Sold in primary pig, ingot, or billet form to nonintegrated users:

Our share of the 150 million pounds released from stockpile quotas amounted to 53,700,000 pounds. We have pooled this amount of metal with the remainder of the amount of primary pig, ingot, and billet we have made available to sell to nonintegrated users and the entire amount of metal thus released is being made available to nonintegrated users.

We are obligated under our supply contracts to deliver to nonintegrated users two-thirds of the production from our additional facilities less the amount of stockpile calls. Our figures for this period are as follows:

	Pounds
Production from additional facilities	239, 300, 000
Two-thirds of such production	159, 500, 000
Stockpile call after reduction of 53,700,000 pounds	89, 250, 000
Amount to be sold under contract to nonintegrated users after reduction of 53,700,000 pounds in stockpile call	70, 250, 000
Actual sales to nonintegrated users for period	104, 118, 000

Thus the company has given the nonintegrated users full credit for the 53,700,000 pounds reduction in stockpile calls and in addition will sell them 34 million pounds more.

The distribution of our sales of primary pig, ingot, and billet to nonintegrated users for the period January through June 1955, by our sales districts is as follows:

District	Allocation	Number of customers	District	Allocation	Number of customers
	Pounds			*Pounds*	
Atlanta	8, 638, 000	21	Milwaukee	4, 174, 000	19
Dallas	4, 752, 000	13	New York	7, 611, 000	41
Detroit	11, 523, 000	22	Oakland	1, 150, 000	10
Chicago	9, 419, 000	15	Philadelphia	7, 136, 000	11
Cincinnati	8, 096, 000	21	St. Louis	458, 000	5
Cleveland	29, 248, 000	17	Seattle	535, 000	6
Kansas City	768, 000	4			
Los Angeles	10, 610, 000	17	Total	104, 118, 000	222

B. Sold or intended to be sold in other than pig, ingot, or billet to nonintegrated users: None.

C. Amount retained by this company: None.

D. Amount otherwise distributed: None.

Question 7. Order bookings of pig, ingot, or billet from nonintegrated users for the months January 1 through May 1:

Kaiser order bookings as of dates indicated

[In millions of pounds]

Orders for month of—	As of Jan. 1	As of Feb. 1	As of Mar. 1	As of Apr. 1	As of May 1
January	11.7				
February	3.8	18.5			
March	2.0	16.5	19.0		
April	.5	4.8	11.0	16.3	
May	.4	3.4	4.9	12.5	16.2
June		4.6	4.5	4.8	11.2
July			1.1	1.1	4.3
August				1.5	4.2
September					.9
Total	18.4	47.8	40.5	36.2	36.8

NOTE.—Above figures represent only open acknowledged orders as of the dates shown. At all times commitments not yet reduced to formal orders existed over and above the amounts shown. For example, actual orders ultimately booked were as follows: January, 19.6; February, 18.3; March, 19.3; and April, 16.5.

We hope that the information above contained adequately answers these two questions.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORP.,
By WARD C. HUMPHREYS,
Manager, Washington Office.

KAISER ALUMINUM & CHEMICAL CORP.,
Oakland, Calif., June 13, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3,
Select Committee on Small Business of the
House of Representatives of the United States,
Washington, D. C.

DEAR CONGRESSMAN YATES: In our letter of June 9, 1955, in reply to the interrogatories contained in your letter of June 2, we neglected to answer question 5 (B) through oversight. The answer to this question is as follows:

Except due to extenuating circumstances other than metal supply, this company does not ordinarily cancel orders once acknowledged.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORP.,
By WARD C. HUMPHREYS,
Manager, Washington Office.

KAISER ALUMINUM & CHEMICAL CORP.,
Oakland, Calif., July 20, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business,
House of Representatives, Washington, D. C.

DEAR MR CHAIRMAN: I am enclosing for your information a copy of a letter I have just written to Mr. John Doering, president of the Aluminum Extruders Council pertaining to a proposed plan we have suggested to Mr. Doering by which additional primary aluminum could be made available to members of the Aluminum Extruders Council and other nonintegrated users.

In view of your intense interest in the aluminum supply problem, I thought that you would be interested in this proposal.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORP.,
D. A. RHOADES,
Vice President and General Manager.

Enclosure.

KAISER ALUMINUM & CHEMICAL CORP.,
Oakland, Calif., July 19, 1955.

Mr. JOHN DOERING,
President, Aluminum Extruders Council,
Washington, D. C.

DEAR MR. DOERING: You have asked that I write to confirm our recent discussion in Washington regarding the metal-supply problems of nonintegrated users of primary aluminum and particularly members of the Aluminum Extruders Council.

I wish to reaffirm that we as a company recognize existing problems of the nonintegrated user of aluminum and the fact that the problem may well become more acute in the future unless there is additional expansion of reduction capacity and an increasing availability of supply to nonintegrated users. We are making every effort to do our part to meet this problem.

You read the press release, as I recall, respecting the application for a certificate of necessity which we filed for the contemplated construction of 90,000 tons of additional reduction facilities and asked me for an expression of our intent respecting utilization of this production and the extent to which it would become available to nonintegrated users.

We have no fixed plan at this time respecting the application of such metal and of course the construction of the proposed plant, its location, and its financing, etc. will involve many problems on which we are presently working.

As I advised you, we would be interested in a plan by which we would build the contemplated facility under a certificate of necessity and contracts to sell a substantial portion of the output of the plant to members of your council and other nonintegrated users. We have had for a number of years, however, contracts with many nonintegrated users to supply a portion of their requirements of primary aluminum and our experience has clearly shown that their requirements for metal are subject to very considerable fluctuation in quantity. During periods when the requirements of our customers are low, it is neither desirable nor practical to force them to purchase metal that they cannot use, even though they have contracted to buy it, and for this reason we have endeavored to find some practical modification of this plan that would eliminate this potential hardship upon the nonintegrated users.

As I understand the matter, the requirements of the national stockpile are still large and the problem of meeting stockpile quotas, in addition to the civilian demand, is a matter of concern.

We suggest, therefore, a plan pursuant to which we would build an additional plant with a certificate of necessity and would contract with members of your council and other nonintegrated users to sell them a substantial portion of the output, and, in turn, your council on behalf of your members and other nonintegrated users who desire to enter into such contracts with us would enter into an agreement with the Government pursuant to which the Government would purchase from your members and other nonintegrated users, for the national stockpile, the amount of metal each year which these customers did not require for their own needs. This arrangement would take care of the objection I mentioned above, would guarantee a definite metal supply to the nonintegrated users and would also supplement the present sources of metal for the national stockpile. I believe that such contracts should run for a period of 5 years from the time that the plant got into full production and we would also be willing at the end of the 5-year period, at the option of each customer, to enter into extensions of such contracts on a requirement basis renewable for terms of 5 years each up to an aggregate of 15 years, the total amount of metal to be made available under such contract extensions to equal an agreed portion of the production from this plant.

During the hearings before Subcommittee No, 3 of the Select Committee on Small Business of the House of Representatives, testimony was introduced on behalf of the Aluminum Extruders Council that the council itself would, if necessary, undertake to construct a reduction plant to take care of the requirements of its members provided the necessary Government assistance was made available. It was stated, however, that very substantial Government assistance would be required to enable the council to accomplish such a program, The suggestion that I have outlined above would accomplish substantially the same results for your members. I am sure you are familiar with the fact that we have the necessary raw materials and resources to promptly carry to completion any expansion program agreed upon and that you are aware of the excellent record which we

made in completing our part of the first two steps of the aluminum expansion program under which we built our Chalmette reduction plant, added to our Mead and Tacoma plants and greatly enlarged our raw material sources.

The arrangement suggested would, I am sure, enable us to move very rapidly in the direction of making this new facility an accomplished fact and would represent a further contribution to providing additional metal for use by the nonintegrated users.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORP.,
D. A. RHOADES,
Vice President and General Manager.

AUGUST 15, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business,
House of Representatives, Washington D. C.

DEAR MR. CHAIRMAN: On July 1, 1955, you publicly released a letter to Dr. Arthur S. Flemming relating to problems affecting the expansion of primary aluminum, competition, and small business. As evidenced by the letter to you of July 11, 1955, from the Honorable Tom Steed and Timothy P. Sheehan, 2 of the 3 members of Subcommittee No. 3, the views expressed in your letter do not represent the opinion of the majority of the committee. Nevertheless, because your letter to Dr. Flemming contains many unwarranted statements concerning the "primary producers," which, if intended to apply to this company, are in no way supported by the evidence before the subcommittee, or by any facts known to us, we feel compelled to answer it.

First, this company has never in any way either taken or refrained from any action, or adopted any course of action, for the purpose of hindering any prospective producer in its efforts to enter the aluminum production field, and there is not a shred of evidence in the public record before this subcommittee to substantiate the allegations and innuendoes to this effect contained in your letter. As a matter of fact, we are now supplying large quantities of aluminum to a prospective producer to tide it over a period until it can determine whether to go into primary production or not. The estimates of future requirements which we have given to any governmental agency have in good faith been made to the best of our judgment and are the same as those upon which we have conducted our own business affairs. They have not been prepared with a view to encourage or discourage expansion of aluminum capacity by the present producers or others.

The record before this subcommittee clearly shows, and the fact is recognized by the other two members of the committee in their letter of July 11, that we have cooperated in making additional metal available to nonintegrated users in excess of our legal obligations. Under the first and second round expansion programs we have added over 450 million pounds of aluminum per year to the national economy; we offered a large part of this production under long-term contracts to nonintegrated users on a requirements basis, and we have not only at all times lived up to the obligations contained in our contracts with the Government to offer a specified portion of the production from our expanded facilities to the nonintegrated users, but when there was a market for the metal we have in addition sold to nonintegrated users as much metal from our old facilities as we did prior to the expansion program.

The purchase of scrap and secondary metal and the making of toll and conversion agreements are normal features of free competition within the industry, provide markets for scrap and secondary metal and are of service to our customers. Such operations increase competition rather than decrease it.

The tremendous growth of both nonintegrated users of primary metal and nonintegrated users of fabricated products, the development of new uses of aluminum, and the amazing expansion of both production of and requirements for aluminum in its various forms are all evidence of a vigorous, expanding, and competitive industry. The fact that with this unprecedented growth and expansion there have been periods of shortage as well as periods of oversupply is understandable and can be expected in any rapidly expanding industry. To meet the demands of this growth this company has increased its sales to nonintegrated users of primary aluminum from 11,974,000 pounds in 1947 to over 180 million pounds during the first 9 months alone of 1955. We are now studying means by which we can further expand both our production and our sales of primary aluminum.

The policy of excluding the present producers from further expansion incentives and of limiting such incentives to newcomers in primary aluminum production

has been in effect for 3 years but has not resulted in a single new producer except that one proposed producer having a contract with the Government sold out its project to Anaconda Copper Co., which elected to proceed without a contract. The Anaconda production will be used primarily to supply the fabricating requirements of that company, so that this venture has failed to produce any metal for nonintegrated users in general, as has the expansion by the present primary producers.

Evidence before your committee indicates a present huge demand for all types of aluminum products and some shortage in production to meet the stockpile and commercial requirements combined. It therefore appears that it would be in the public interest to remove the ban of further expansion aids to the present producers. If it is essential in the public interest to increase the supply of aluminum, particularly for nonintegrated users, the continued exclusion of present producers may be interpreted as gambling with the public interest.

We fully share the committee's concern with respect to the indicated shortage in primary aluminum capacity and we fully support the committee's efforts to bring about the adoption of governmental policies that will increase the Nation's primary capacity. We believe that this is the healthy, logical, and fundamental solution of the difficulties that have been caused by the present shortage.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORP.,
D. A. RHOADES, *Vice President and General Manager.*

KAISER ALUMINUM & CHEMICAL CORP.,
Washington, D. C., September 6, 1955.

Mr. A. J. WALSH,
Commissioner, Emergency Procurement Service,
General Services Administration, Washington, D. C.

DEAR MR. WALSH: In the face of the increasing requirements of the nonintegrated users of aluminum, the quantity of aluminum which will be available to them under the existing supply contracts with the primary producers will drop in 1958–59 (when production of the contract tonnages will have been completed) from 66⅔ percent of the output of the new facilities to only 25 percent.

The purpose of this letter is to suggest a method of increasing the quantity of metal available to nonintegrated users after the present contract tonnages are produced and at the same time providing new aluminum reduction capacity.

We believe that we could undertake the expansion of our aluminum-reduction capacity by approximately 90,000 tons per year on a basis by which the Government would extend our existing Government supply contracts covering steps I and II at our Chalmette plant for a period of 3 additional years each. In return for this extension, we would undertake the construction and operation of a new reduction plant of the approximate capacity above mentioned.

By this arrangement the Government would not only assure the national economy of additional vitally needed reduction capacity of 180 million pounds a year but would also extend its rights to purchase aluminum under our existing contracts at Chalmette for 3 more years and would extend our obligation to offer two-thirds of the Chalmette production to nonintegrated users for an additional 3 years. At the termination of the 2 Chalmette contracts, we are now obligated to offer 25 percent of the Chalmette reduction capacity to nonintegrated users for a period of 15 years. Under the proposed extension, the 25-percent requirement would commence 3 years later and would continue thereafter for 15 years.

As we advised Dr. Flemming, we started operation of a new 100,000-ton reduction plant under the original aluminum-expansion program within less than 11 months after the acquisition of a vacant plant site, and, since commencement of production in December 1951, we have produced nearly a billion pounds of primary aluminum from facilities constructed under the Government program. Our portion of the Government's aluminum-expansion program under the existing supply contracts has been financed entirely by private capital and without expense to the Government since the Government has purchased only such quantities of metal under the contracts as it has required for stockpile goals.

We have, at this time, readily available the physical resources and know-how to construct within a minimum time additional reduction capacity and own ample bauxite reserves and energy sources for additional aluminum production, as well as favorably located plant sites. We have performed a great deal of research and

advanced engineering for a new reduction plant and could promptly proceed with construction of a modern and efficient plant.

We would greatly appreciate the opportunity of discussing this matter with you and other Government representatives at your early convenience. Could you please arrange a meeting for this purpose and advise us of the time most convenient to you.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORP.,
By WARD C. HUMPHREYS,
Manager, Washington Office.

OCTOBER 24, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business,
House of Representatives, Washington 25, D. C.

DEAR CONGRESSMAN YATES: In our letter to you dated September 28, 1955, as supplemented by our letter dated October 4, 1955, we advised you that we estimated that our sales of pig, ingot, and billet to nonintegrated users during the fourth calendar quarter of 1955 would total 81.9 million pounds including 6,900,000 pounds of toll-conversion metal. It now appears that total production will be less than the 213 million pounds previously estimated and that imports from Canada will be less than the 5 million pounds anticipated at the time of our previous report. Also due to severe production problems, we expect a substantial quantity of our reduced production to be off-grade (high iron) metal. Accordingly, we now estimate that only 69.9 million pounds, including 6.9 million pounds of toll-conversion metal, will be available. Based on current estimates, we also expect to offer 3 to 7 million pounds of off-grade metal in addition to the 69.9 million pounds stated above.

The foregoing estimates assume optimum power conditions in the Northwest and, in the event that our power supply is curtailed, both total production and sales to nonintegrated users will necessarily be reduced.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORP.,
By WARD C. HUMPHREYS,
Manager, Washington Office.

KAISER ALUMINUM & CHEMICAL CORP.,
Oakland, Calif., November 10, 1955.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3,
Select Committee on Small Business,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: Attached are the answers to the questions contained in your letter of October 26.

Very truly yours,

WARD C. HUMPHREYS,
Manager, Washington Office.

Letter of October 26, 1955

Question 1. In millions of pounds for each year, 1949 through 1954, and the first 6 months in 1955, your total sales of semifabricated and fabricated aluminum in two categories:

(a) Sheet
(b) Other fabrications

Exclude any primary metal in pig, ingot, or billet form, and exclude material furnished under toll or conversion arrangements.

Answer:

	(a) Sheet	(b) Other fabrications		(a) Sheet	(b) Other fabrications
1949	185	10	1953	310	108
1950	245	37	1954	233	88
1951	231	64	1955 (first 6 months)	175	69
1952	243	92			

Question 2. The total amount of power cost subsidies received by you from the Federal Government.

Answer. Power cost subsidies have been received from the Federal Government by Kaiser Aluminum & Chemical Corp. between September 18, 1951, and March 31, 1953. Periodic water shortages in the Pacific Northwest necessitated the use of high-cost power to maintain production at the capacity level. The Federal Government paid $671,559.77 to Kaiser Aluminum as reimbursement for costs in excess of 4 mills per kilowatt-hour on 194,748,566 kilowatt-hours of high-cost power consumed during this period. Production of 21,755,770 pounds of primary aluminum was attained from this power.

During the start-up period of the Chalmette, La., plant, high-cost power was purchased to operate reduction facilities prior to the completion of the powerplant. The Government did not subsidize the cost of power directly but did purchase the aluminum produced from purchased power at a price in excess of the market price to compensate the company for the cost of power in excess of 4 mills per kilowatt-hour and for other additional expenses incurred by the company as a result of undertaking production of aluminum prior to the completion of its own powerplant. Pursuant to this contract Kaiser Aluminum produced 32,165,436 pounds of primary aluminum and the cost of power in excess of 4 mills per kilowatt-hour added to the purchase price of this metal was $953,359.16.

None of this aluminum would have been produced without the arrangements above mentioned. Disposition of all of this metal was in accordance with Government directive.

Question 3. (a) Table 3–a supplies the base price, the minimum quantity to which the price applied, each change in price, and the date of change, for the particular grade of purity, alloy, dimension, gage or shape as individually applicable, that was typically used or demanded of the products listed in Question 3–a of the letter of July 11, 1955. Freight was absorbed at the price and quantities indicated.

Products listed in the question which are not now produced by Kaiser Aluminum & Chemical Corporation are reroll slab, tube blooms, and powder. There were no other major volume products than those indicated in the table.

Answer:

Base prices, price changes, and date of price changes for all major volume products, Jan. 1, 1949, to June 30, 1955

[Dollars per pound]

Product	Minimum quantity to which prices apply (pounds)	Prices in effect 1-1-49	Date of price change							
			5-25-50	9-28-50	8-4-52	1-22-53	7-20-53	8-6-54	1-12-55	
Pig, ingot, and billet:										
Pig, 99 percent pure	10,000	$0.160	$0.165	$0.180	$0.190	$0.195	$0.200	$0.205	$0.215	
Ingot, 99 percent-plus pure	10,000	.170	.175	.190	.200	.205	.215	.222	.232	
6063 billet	10,000	1.188	.193	.209	.219	.228	.236	.245	.255	
			5-25-50	10-2-50	8-4-52	1-22-53	6-16-53	7-21-53	9-15-53	8-7-54	1-12-55
Reroll coils:											
1100-0	30,000	.210	$0.215	$0.241	$0.254	$0.264	$0.284	$0.290	$0.270	$0.277	$0.287
2024-0	30,000	.239	.244	.274	.288	.300	.320	.326	.306	.313	.323
			5-25-50	10-2-50	8-4-52	1-22-53	6-16-53	7-21-53	9-15-53	8-7-54	1-12-55
Foil stock:											
1235-0	30,000	.231	$0.236	$0.262	$0.275	$0.286	$0.296	$0.304	$0.294	$0.302	$0.312
			12-5-49	5-25-50	10-2-50	8-4-52	1-22-53	7-21-53	8-10-54	1-12-55	
Redraw rod:											
ALCLAD, 5056-F	30,000	.350	$0.367	$0.327	$0.347	$0.364	$0.379	$0.387	$0.392	$0.402	
EC-O	30,000	.270	.230	.225	.245	.257	.267	.272	.280	.290	
			12-5-49	5-25-50	10-2-50	8-4-52	1-22-53	7-21-53	8-10-54	1-12-55	
Round forging stock:											
Class I, 2.501-3.500	30,000		[2] $0.290	$0.295	$0.325	$0.3413	$0.355	$0.371	$0.393	$0.403	
			5-25-50	10-2-50	8-4-52	1-22-53	7-21-53	8-7-54	1-12-55		
Sheet:											
MFFS, 0.038-0.048, 1100-0	30,000	.291	$0.296	$0.325	$0.341	$0.355	$0.366	$0.377	$0.387		
MFSS, 0.031-0.061, 2024-0	30,000	.356	.361	.391	.411	.427	.440	.455	.465		
Coiled, 0.038-0.048, 1100-0	30,000	.266	.271	.298	.313	.326	.336	.346	.356		

Coiled, 0.031–0.061, 2024–0	30,000	.315	.320	.352	.369	.385	.394	.406	.416		
Plate, 1100–0	30,000	.249	.259	.291	.306	.318	.333	.345	.355		
Plate, 2024–0	30,000	.282	.292	.324	.340	.354	.369	.384	.394		
			4–3–51	4–14–52	8–4–52	1–22–53	7–21–53	2–8–54	8–10–54	1–12–55	
Extrusions:											
Solid shape, f9–11, Wt. 5–1.5, 6063–T6	30,000		[2] $0.369	$0.367	$0.385	$0.400	$0.406	$0.396	$0.409	$0.419	
Solid shape, f9–11, Wt. 0.5–1.5, 6061–T6	30,000		[3] .460	.480	.504	.524	.535		.554	.564	
			6–2–50	9–30–50	8–4–52	1–22–53	7–23–53	8–10–54	1–12–55		
Foil:											
0.00035	30,000	.580	$0.590	$0.635	$0.665	$0.690	$0.705	$0.720	$0.730		
0.005	30,000	.390	.400	.435	.455	.475	.495	.515	.525		
			1–15–49	4–11–49	2–6–50	10–2–50	8–4–52	1–22–53	7–28–53	3–17–54	8–10–54	1–12–55
Electrical conductor cable:											
ACSR:											
AWG 4 6/1	20,000	.287	$0.253	$0.2441	$0.2566	$0.2739	$0.2876	$0.2974	$0.3085	$0.3020	$0.3160	$0.323
AWG 795,000–26/7	20,000	.239		.2275	.2400	.2565	.2693	.2784	.2810	.2750	.2870	.294
			5–19–50	10–12–50	4–14–52	11–24–52	3–17–54	1–12–55				
Weatherproof: [4]												
AWG 4 solid Neoprene	20,000		[2] $21.40	$29.00	$28.47	$27.05	$26.50	$26.90				
AWG 4 7-strand Neoprene	20,000		[2] 22.80	33.20	37.59	35.70	35.00	35.40				
			5–25–50	10–2–50	8–4–52	1–22–53	7–21–53	8–10–54	1–12–55			
Coiled round drawn wire:											
0.077–0.098, 5056	30,000	.420	$0.425	$0.455	$0.478	$0.497	$0.518	$0.539	$0.549		
			12–5–49	5–25–50	10–2–50	8–4–52	1–22–53	7–21–53	8–10–54	1–12–55	
Rolled rod:											
1.625–2,000, 2017–T4	30,000		[2] $0.345	$0.350	$0.375	$0.394	$0.410	$0.414	$0.428	$0.438	

See footnotes at end of table, p. 550.

Base prices, price changes, and date of price changes for all major volume products, Jan. 1, 1949, to June 30, 1955—Continued

[Dollars per pound]

Product	Minimum quantity to which prices apply (pounds)	Prices in effect 1-1-49	Date of price change							
			12-5-49	5-25-50	10-2-50	8-4-52	1-22-53	7-21-53	8-10-54	1-12-55
Cold finished hexagonal bar:										
0.375-0.500, 2017-T4	30,000		[2] $0.450	$0.455	$0.490	$0.515	$0.536	$0.544	$0.572	$0.582
			1-10-52	8-4-52	1-22-53	12-1-53	7-21-53	8-10-54	1-12-55	
Tubing:										
Extruded round tube, wall thickness 0.125-0.155, outside diameter 1¼-2:										
6061-T6	30,000		[2] $0.430	$0.462	$0.480		$0.501	$0.528	$0.538	
6063-T6	30,000		[3] .387	.417	.434		.446	.466	.476	
Round drawn tube, outside diameter 1:										
6061-T6	30,000					$0.668		.697	.707	

[1] Price in effect Nov. 28, 1949.
[2] Initial price.
[3] Price is in dollars per 1,000 feet.

Question 3. (*b*) (i) Because of the nature of the aluminum scrap market, Kaiser Aluminum does not establish base prices for new scrap. Each purchase is a separate transaction made on an informal bid or bargaining basis, in line with normal practice for this market.

(*b*) (ii) Kaiser Aluminum does not have published base prices for toll scrap, primary metal or secondary metal. Each toll transaction is handled on a special inquiry basis. The tolling charge itself is composed of two elements:

a. A conversion charge which is developed for each individual transaction and is equal to the cost of converting the customer's metal to the equivalent of primary pig. This charge consequently varies from transaction to transaction to compensate for the grade and condition of the metal being tolled.

b. A charge covering the difference between the published price of the semifabricated product purchased and primary pig.

Answer:

Kaiser Aluminum & Chemical Corp., metal-control department—Primary metal-production schedule as of May 31, 1955

[Thousands of pounds]

	Mead			Tacoma			Chalmette			Normal	Expansion	Grand total
	Normal	Expansion	Total	Normal	Expansion	Total	Step I	Step II	Total			
1951 [1]	287,715		287,715	48,381		48,381	474		474	336,096	474	336,570
1952 [1]	257,947	4,834	262,781	48,492		48,492	75,037		73,037	306,439	79,871	386,310
1953 [1]	275,888	37,015	312,903	47,370	12,810	60,180	138,758	104,520	243,278	323,258	293,103	616,240
1954 [1]	292,680	40,618	333,298	49,726	16,400	66,126	193,256	193,764	387,020	342,406	444,038	786,444
1955—January [1]	25,413	3,541	28,954	4,414	1,393	5,807	18,337	18,337	36,404	29,827	41,338	71,165
February [1]	23,597	3,292	26,889	3,976	1,258	5,234	16,451	16,599	33,050	27,573	37,600	65,173
March [1]	25,902	3,643	29,545	4,479	1,393	5,872	17,787	17,589	35,376	30,381	40,412	70,793
April [1]	24,214	3,309	27,523	4,249	1,348	5,597	17,474	17,638	35,112	28,463	39,769	68,232
May [1]	26,223	3,675	29,898	4,476	1,393	5,869	18,188	18,262	36,450	30,699	41,518	72,217
June	25,112	3,588	28,700	4,442	1,348	5,790	17,150	17,150	34,300	29,554	39,236	68,790
July	25,944	3,706	29,650	4,587	1,393	5,980	17,715	17,715	35,430	30,531	40,529	71,060
August	25,944	3,706	29,650	4,587	1,393	5,980	17,870	17,870	35,740	30,531	40,839	71,370
September	25,112	3,588	28,700	4,442	1,348	5,790	17,300	17,300	34,600	29,554	39,536	69,090
October	25,944	3,706	29,650	4,587	1,393	5,980	18,025	18,025	36,050	30,531	41,149	71,680
November	25,112	3,588	28,700	4,442	1,348	5,790	17,450	17,450	34,900	29,554	39,836	69,390
December	25,944	3,706	29,650	4,588	1,392	5,980	18,175	18,175	36,350	30,532	41,448	71,980

[1] Figures these periods are actual.

NOTES TO REVISED TABLE 2

The categories of distribution listed on the table correspond to the items requested in the letter dated July 11, 1955, even though the wording may be changed. The following comments apply to the items indicated:

(*a*) Our records do not disclose any sales of semifabricated or fabricated metal which was later tolled or converted as requested by your question.

(*b*) A customer's purchases in 1950 of primary metal for immediate conversion by Kaiser to sheet products were excluded. Corporation records do not indicate whether metal received from a customer was originally sold by Kaiser.

(*c*) See (*a*) above.

(*d*) See (*b*) above.

(*e*) No sales have ever been made to United States Government pursuant to Kaiser's contractual right to sell aluminum under GSA contracts.

Answer:

[Revised Table 2]

Kaiser Aluminum & Chemical Corp.—Distribution of metal supply, calendar years 1946 through 1949

[In millions of pounds]

	1946		1947		1948		1949	
	Pounds	Percent	Pounds	Percent	Pounds	Percent	Pounds	Percent[1]
(*a*) Processed in fabricating plants or added to inventory	113	100.0	182	86.3	270	96.1	238	.....
(*b*) Sold as primary metal in pig, ingot, or billet form to domestic nonintegrated users (excluding sales later tolled)	.....	.....	6	2.8	11	3.9	11	.....
(*d*) Sales of primary metal in pig, ingot, or billet form and then tolled for domestic customers	.....	.....	.....	.....	.....	.....	.....	.....
(*e*) Sold as primary metal to United States Government:								
(*a*) Stockpile under GSA contracts, per request of GSA	.....	.....	.....	.....	.....	.....	.....	.....
(*b*) Other purposes	.....	.....	.....	.....	.....	.....	.....	.....
(*f*) Otherwise distributed:								
(*a*) Exports of primary metal	.....	.....	17	8.1	.....	.....	2	.....
(*b*) Secondary ingot sales	.....	.....	.....	.....	.....	.....	3	.....
(*c*) Toll-extrusion billet	.....	.....	.....	.....	.....	.....	1	.....
(*d*) Scrap sales	.....	.....	.....	.....	.....	.....	.....	.....
(*e*) Sales of primary metal to other domestic producers	.....	.....	6	2.8	.....	.....	.....	.....
(*g*) Total supply distributed	113	100.0	211	100.0	281	100.0	(1)	(1)
(*h*) Division of total supply into:								
(*a*) Exports of primary pig, ingot, and billet	(2)	.....	17	8.1	.....	.....	2	0.7
(*b*) Exports of secondary or scrap	.....	.....	.....	.....	.....	.....	.....	.....
(*c*) Exports of other products	1	.9	16	7.6	10	3.6	6	2.2
(*d*) All domestic disposal of metal	112	99.1	178	84.3	271	96.4	271	97.1

[1] Data omitted to avoid disclosing stockpile sales.
[2] Less than 500,000 pounds.

[Revised table 2]

Kaiser Aluminum & Chemical Corp.—Distribution of metal supply, calendar years 1950 through 1954

[In millions of pounds]

	1950		1951		1952		1953		1954	
	Pounds	Percent [1]	Pounds	Percent [1]	Pounds	Percent [1]	Pounds	Percent [1]	Pounds	Percent [1]
(a) Processed in fabricating plants or added to inventory	271		315		351		445		362	
(b) Sold as primary metal in pig, ingot, or billet form to domestic non-integrated users (excluding sales later tolled)	36		50		89		126		136	
(d) Sales of primary metal in pig, ingot, or billet form and then tolled for domestic customers	1									
(e) Sold as primary metal to United States Government: [1]										
(a) Stockpile under GSA contracts, per request of GSA										
(b) Other purposes										
(f) Otherwise distributed:										
(a) Exports of primary metal	(2)						5		1	
(b) Secondary ingot sales	14		22		23		23		1	
(c) Toll extrusion billet	9		18		8		12		18	
(d) Scrap sales									1	
(e) Sales of primary metal to other domestic producers			(2)				5		3	
(g) Total supply distributed [1]										
(h) Division of total supply into:										
(a) Exports of primary pig, ingot and billet	(2)						5	.7	1	0.1
(b) Exports of secondary or scrap										
(c) Exports of other products	6	1.7	3	0.7	4	0.8	3	.4	3	.3
(d) All domestic disposal of metal [1]										

[1] Data omitted to avoid disclosing stockpile sales.
[2] Less than 500,000 pounds.

[Revised table 2]

Kaiser Aluminum & Chemical Corp.—Distribution of metal supply, monthly, January through June, 1955

[In millions of pounds]

	January		February		March		April		May		June	
	Pounds	Percent [1]	Pounds	Percent [1]	Pounds	Percent [1]	Pounds	Percent [1]	Pounds	Percent [1]	Pounds	Percent [1]
(a) Processed in fabricating plants or added to inventory	41.0		29.1		45.1		45.8		41.8		46.8	
(b) Sold as primary metal in pig, ingot, or billet form to domestic nonintegrated users (excluding sales later tolled)	16.8		18.9		18.3		17.5		18.0		17.1	
(d) Sales of primary metal in pig, ingot, or billet form and then tolled for domestic customers												
(e) Sold as primary metal to U. S. Government: [1]												
(a) Stockpile under GSA contracts, per request of GSA												
(b) Other purposes												
(f) Otherwise distributed:												
(a) Exports of primary metal	(2)		3.3		.2							
(b) Secondary ingot sales	.1		1.0									
(c) Toll extrusion billet	1.8		1.4		1.4		1.9		2.7		2.9	
(d) Scrap sales	(2)											
(e) Sales of primary metal to other domestic producers												
(g) Total supply distributed [1]												
(h) Division of total supply into:												
(a) Exports of primary pig, ingot, and billet	(2)		3.3	4.9	.2	.3						
(b) Exports of secondary or scrap												
(c) Exports of other products	.3		.1		.6		.6		.3		.4	
(d) All domestic disposal of metal [1]												

[1] Data omitted to avoid disclosing stockpile sales.
[2] Less than 50,000 pounds.

Answer to question 3:

Kaiser Aluminum & Chemical Corp.—Scrap receipts and disposals

[Pounds]

	Scrap receipts			Disposals of scrap	Net scrap for consumption
	Toll or conversion	Purchased	Total		
Calendar years:					
1946		6,015,391	6,015,391		6,015,391
1947		10,603,112	10,603,112		10,603,112
1948		10,603,640	10,603,640		10,603,640
1949	1,935,430	12,075,559	14,010,989		14,010,989
1950	9,484,160	17,091,625	26,575,785		26,575,785
1951	17,891,483	18,524,295	36,415,778		36,415,778
1952	9,859,872	25,341,028	35,200,900		35,200,900
1953	14,246,379	34,945,021	49,191,400		49,191,400
1954	18,906,037	24,432,682	43,338,719	1,080,412	42,258,307
Months:					
1955—January	1,511,464	1,419,266	2,930,730	40,060	2,890,670
February	1,567,854	448,283	2,016,137		2,016,137
March	1,789,927	533,106	2,323,033		2,323,033
April	2,037,581	521,856	2,559,437		2,559,437
4-month total	6,906,826	2,922,511	9,829,337	40,060	9,789,277

NOTES.—Segregation of scrap is maintained on a quality basis by the corporation, rather than segregation between new and old scrap as such. The major portion of scrap received has been new scrap, and while some old scrap has been used, it would not represent a significant portion of the total in any year.

In 1954 the corporation discontinued operation of its secondary smelter located at Newark, Ohio. The disposals of scrap shown above represents sales of the portion of the smelter's inventory which was unusable by other plants. While other occasional scrap sales may have been made during the period reported such quantities would be very small. The corporation's policy is to buy scrap for consumption only.

Answer to question 4:

Kaiser Aluminum & Chemical Corp.—Inventory of purchased and toll scrap, Apr. 30, 1955

	Pounds
Inventory quantity	951,666

NOTE.—Purchased scrap and toll scrap are not segregated into old-scrap and new-scrap classifications. The inventory is primarily new scrap and any old scrap included would be a very minor percent of the total.

Answers to question 5:

Kaiser Aluminum & Chemical Corp.: Primary supply and distribution

	1955					1956 total
	1st quarter	2d quarter	3d quarter	4th quarter	Total	
A. PRIMARY SUPPLIES						
(1) Production	207, 335, 324	219, 026, 000	211, 520, 000	213, 050, 000	850, 931, 324	840, 000, 000
(2) Purchased from other producers [1]	0	0	4, 000, 000	2, 000, 000	6, 000, 000	0
(3) Purchased from Canada		8, 400, 000	10, 000, 000	12, 000, 000	30, 400, 000	76, 000, 000
(4) Other imports	39, 964	0	0	0	39, 964	0
(5) Less exports	3, 495, 682	0	0	0	3, 495, 682	0
(6) Net supply	203, 879, 606	227, 426, 000	225, 520, 000	227, 050, 000	883, 875, 606	916, 000, 000
B. DISTRIBUTION						
(1) For fabrication or added to inventory	[2] 107, 877, 551	143, 018, 985	127, 520, 000	137, 050, 000	515, 466, 536	525, 000, 000
(2) Primary sales to independent fabrication	57, 420, 139	52, 064, 085	80, 000, 000	90, 000, 000	279, 484, 224	[3]
(3) Sales to Government [4]						
(4) Otherwise sold	0	0	0	0	0	0
(5) Total [4]						

[1] Trades not included. Purchases shown are off-grade start-up metal.
[2] Inventory depletion in 1st quarter, 1955.
[3] At this time it is not possible to accurately estimate the 1956 requirements of the independent fabricators. During the 1st half of 1955 the independents could not buy all they wished but during the last half of 1955 it is possible more will be available than the independents wish to purchase. For this reason, the amount available for independents and the Government in 1956 is shown as a lump sum.
[4] Data omitted to avoid disclosing stockpile sales.

Letter of July 25, 1955

Question 1. Please state the total assets in dollars, before depreciation, as shown by the balance sheet of the Kaiser Aluminum & Chemical Corp. as of December 31, 1954, or closing date of the last fiscal year, and closing date of the first year of operation of this company (former name, the Permanente Metals Corp.) in the aluminum business, May 31, 1947. Please state for the same dates the capital common stock and surplus (common stockholders' equity), excluding preferred stock.

Answer:

[In thousands of dollars]

	May 31, 1955	May 31, 1947
Total assets before depreciation	$438, 036	$52, 615
Capital common stock and surplus	121, 589	10, 997

Answer to question 2–a:

Government loans to Kaiser Aluminum & Chemical Corp., since 1946

					Total
Dollar volume of each loan	$2,500,000	$4,050,000	$34,200,000	$4,000,000	$44,750,000
(i) Agency of Government	War Assets Administration	Reconstruction Finance Corporation through General Services Administration.	Reconstruction Finance Corporation through General Services Administration.	General Services Administration.	
(ii) Date loan became effective	Feb. 6, 1947	June 1, 1949	July 1, 1949	Feb. 20, 1951	
(iii) Principal purpose of loan	Purchase of aluminum plant	Purchase of rod, bar, and wire mill.	Purchase of alumina plant, aluminum plant, and rolling mill.	Partial payment of $34,200,000 note.	
(iv) Interest rates	4 percent	4 percent	4 percent	4 percent	
(v) Number of years for maximum term of loan.	10	20	25	23½	
(vi) Whether principal payable in other than cash.	Part in aluminum	Part in aluminum	Part in aluminum	Cash	
(vii) Of repayments made to Dec. 31, 1954, on the principal:					
(a) Amount paid in dollars	$2,312,500	$3,847,500	$33,174,000	$4,000,000	
(b) Amount paid in kind:					
Pounds of aluminum	1,160,038	1,256,036	6,347,530		
Dollar value	$187,500	$202,500	$1,026,000		
(viii) Amount outstanding on Dec. 31, 1954					

Answers to question No. 2 (*b*).

(i) Total dollar amount of property, plant, and equipment, undepreciated as of the end of the fiscal year, May 31, 1955: $302,991,685.

(ii) Total dollar amount of property, plant, and equipment, undepreciated that:

(*a*) Was purchased from the Federal Government: $45,060,000.

This is also the amount that was recorded on the books of the corporation at the time of acquisition.

(*b*) Is now leased from or owned by the Federal Government: $402,271.

This amount represents leasehold improvements made by the Corporation. The total dollar amount of leased plants and equipment is not recorded on the corporation books.

(iii) Total amount of tax amortization certified since date of first operation in the aluminum business in 1946:

(*a*) Amount applicable to assets on the books of the corporation as of May 31, 1955: Amount expended on certified facilities at May 31, 1955, is $220 million. Of this amount, approximately 81 percent is certified for rapid amortization.

(*b*) Amount applicable to assets not yet on the books of the corporation as of May 31, 1955: Amount not expended at May 31, 1955 is $96 million. Of this amount approximately 75 percent is certified for rapid amortization.

(iv) Of the total price of plants and equipment purchased from the United States Government, the total maximum repayments possible in dollars, by settlement in aluminum or other materials (specify which type of material).

The promissory note for the purchase of the Baton Rouge alumina plant, the Mead reduction plant, and the Trentwood rolling mill provides for payment in aluminum pig, or ingot as follows:

"With respect to all payments under this note due and payable between July 1, 1949, and June 30, 1950, and/or rental payments which had accrued as of June 30, 1949, for the annual lease period or portion thereof ending June 30, 1949, under the leases, as amended, between the payee and the undersigned hereof covering the Baton Rouge alumina plant (Plancor 226–AO), the Mead reduction plant (Plancor 226–S), and the Trentwood rolling mill (Plancors 524 and 1061), the undersigned shall have the option to make payments, in lieu of cash, in up to 12,714,247 pounds of aluminum pig or ingot of the grade and Federal specifications designated by the Munitions Board as acceptable in lieu of cash for stockpile requirements, at the prevailing market price therefor, including prevailing industry terms for the payment of freight, at the time such payments become due and payable. Thereafter, with respect to all such payments due and payable between July 1, 1949, and June 30, 1950, and in each subsequent year, the undersigned shall have the option to make payments, in lieu of cash, in aluminum pig or ingot of the grade and specifications so designated up to approximately 40 percent of each additional amount (over and above the first 60 million pounds recommended for the fiscal year beginning July 1, 1949) of the quantity, type, and specifications indicated from time to time by the Munitions Board as acceptable pursuant to section 204 (e) of Public Law 152, 81st Congress, for the period designated by the Munitions Board. Such approximately 40 percent for any period shall be the percentage which is determined by payee to represent the undersigned's equitable proportion, as compared to other purchasers and lessees of Government-built aluminum plants, of the quantity designated by the Munitions Board for such period, but shall not be less than 35 percent, nor more than 45 percent, of the quantity designated by the Board for such period. The undersigned shall advise the payee hereof, in writing, of the extent to which the undersigned elects to exercise its option to make payment in aluminum pig or ingot pursuant to this paragraph, not later than 15 days prior to any due date on which it desires to make payment in aluminum pig or ingot and a failure of the undersigned to comply with such election on the date such payment is to be made shall be deemed to be a default hereunder unless the undersigned tenders payment in cash in lieu of aluminum pig or ingot on the date such payment is to be made and such cash tender is accepted by payee."

The contracts for the purchase of the Tacoma reduction plant and the Newark rod and bar mill made no provision for settlement except in dollars. However, pursuant to the discretionary authority granted by Public Law 152, 81st Congress, section 204, paragraph E, quantities of aluminum were accepted in lieu of cash for a portion of the purchase price.

Answer to question 2 (c) (i), letter of July 25, 1955:

Kaiser Aluminum & Chemical Corp.—Bauxite purchased from the U. S. Government in tons and dollars since 1946

Year	Bauxite	
	Long tons	Amount
1946	29,462	$77,780
1947	59,968	184,100
1948	14,654	56,420

Answer to question 2 (c) (ii), letter of July 25, 1955:

Kaiser Aluminum & Chemical Corp.—Aluminum purchased from the U. S. Government, in pounds and dollars since 1946

Year	Aluminum	
	Pounds	Amount
1946	41,746,787	$5,968,233
1947	8,951,394	1,287,377
1950 [1]	1,136,686	(1)
1951 [2]	2,481,738	732,543
1952 [2]	19,581,760	3,885,398
1953 [2]	4,982,828	1,038,013

[1] Shapes and ingots—Kaiser Aluminum & Chemical Corp. returned ¾ of a pound of primary pig to the Government for every pound of shapes and ingots received under this contract.

[2] Sheet purchases included in these amounts:

Year	Aluminum	
	Pounds	Amount
1951	1,061,242	$482,644
1952	1,503,455	680,931
1953	420,008	183,925

Answer to question 1, letter of July 15, 1955:

Kaiser Aluminum & Chemical Corp.—Production from supply contract capacity, metal available for Government call and nonintegrated users and metal assigned to Government call quarterly from start of production through June 30, 1955.

[In millions of pounds]

	Quarter ended						
	Sept. 30, 1953	Dec. 31, 1953	Mar. 31, 1954	June 30, 1954	Sept. 30, 1954	Dec. 31, 1954	June 30, 1955 [1]
(a) Production of capacity subject to the contract provision:							
Estimated	75	96	103	107	113	113	239
Actual	81	96	106	110	112	116	240
(b) Amount of metal computed as equivalent to the ¾ to be available for Government and nonintegrated users combined, after prior allocations	34	55	61	65	70	70	146
(c) Amount of metal assigned to Government:							
Pursuant to directive or call	11	17	106	58	72	79	89
Other		65	[2] 24	20			
(d) Amount of metal computed as required to be offered to nonintegrated users under supply contracts	23	38		7			57
Actual sales to nonintegrated users from all facilities	30	30	22	31	39	45	107

[1] 1st and 2d quarter of 1955 combined.
[2] From noncontract facility production.

NOTE.—All aluminum produced from capacity subject to the contract provisions from start of production through June 30, 1953, was disposed of pursuant to National Production Authority directive and not pursuant to the contracts. Production during this period was as follows:

Quarter ended	*Millions of pounds*
Dec. 31, 1951	(a)
Mar. 31, 1952	9
June 30, 1952	19
Sept. 30, 1952	24
Dec. 31, 1952	29
Mar. 31, 1953	52
June 30, 1953	64

[a] Less than ½ million.

Answer to question 2, letter of July 15, 1955:

Kaiser Aluminum & Chemical Corp.—Estimated supply contract production and amounts to be available for Government call and nonintegrated users quarterly from July 1, 1955, until expiration of all contracts

[In millions of pounds]

	Capacity subject to contract	¾ to be available for Government and nonintegrated users	25 percent of capacity to be available to nonintegrated users after contracts expire
Quarters ending:			
Sept. 30, 1955	114	76	
Dec. 31, 1955	114	76	
Mar. 31, 1956	114	76	
June 30, 1956	114	76	
Sept. 30, 1956	114	76	
Dec. 31, 1956	114	76	
Mar. 31, 1957	114	76	
June 30, 1957	114	76	
Sept. 30, 1957	114	76	
Dec. 31, 1957	111	74	1
Mar. 31, 1958	104	69	3
June 30, 1958	51	34	16
Sept. 30, 1958	50	33	16
Dec. 31, 1958	27	18	22
Mar. 31, 1959			29

Answer to question 1, letter of July 15, 1955:

Kaiser Aluminum & Chemical Corp.—Production from supply contract capacity, metal available for Government call and nonintegrated users and metal assigned to Government call quarterly from start of production through June 30, 1955

[In millions of pounds]

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(a) Production of capacity subject to the contract provision:							
Estimated	75	96	103	107	113	113	239
Actual	81	96	106	110	112	116	240
(b) Amount of metal computed as equivalent to the ¾ to be available for Government and nonintegrated users combined, after prior allocations	34	55	61	65	70	70	146
(c) Amount of metal assigned to Government:							
Pursuant to directive or call	11	17	106	58	72	79	89
Other		65	[2] 24	20			
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Quarters ending:			
Sept. 30, 1955	114	76	
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Mar. 31, 1956	114	76	
June 30, 1956	114	76	
Sept. 30, 1956	114	76	
Dec. 31, 1956	114	76	
Mar. 31, 1957	114	76	
June 30, 1957	114	76	
Sept. 30, 1957	114	76	
Dec. 31, 1957	111	74	1
Mar. 31, 1958	104	69	3
June 30, 1958	51	34	16
Sept. 30, 1958	50	33	16
Dec. 31, 1958	27	18	22
Mar. 31, 1959			29

ALUMINUM INDUSTRY

Section II. Letter of Aluminum Company of America, March 14, 1952, to the President's Materials Policy Commission, commenting on draft report on aluminum (marginal comments of Commission Counsel omitted)

ALUMINUM COMPANY OF AMERICA,
Pittsburgh 19, Pa., March 14, 1952.

Mr. WILLIAM C. ACKERMAN,
Executive Secretary, President's Materials Policy Commission,
Executive Office of the President, Washington 25, D. C.

DEAR MR. ACKERMAN: We are pleased to have had the opportunity to examine your Commission's Draft of Report on Aluminum which you sent us with your letter of March 7. Due to the fact that you asked that we give you our comments and suggestions so as to reach you not later than March 17, we are unable to put these in as finished form as otherwise we would have hoped to do. Possibly it will be just as helpful to you if we merely list our comments serially by page reference.

Page 1, second paragraph, and page 24, first paragraph

In view of our optimism as to the future of aluminum markets we do not quarrel with the estimate that the demand for aluminum "can reasonably be expected to quintuple over the next 25 years, both in the United States and in the rest of the free world," but we are inclined to feel that this is overly optimistic.

Page 2, first paragraph. Also page 30, first paragraph

In connection with the need for expanding production facilities to meet the expanding demands for aluminum we believe it should be pointed out that the domestic aluminum producers can be expected not only to continue their energetic efforts to expand their markets but also to provide increased capacity in order to supply those expanding markets. The evidence of the past and the present clearly indicates that this will be the case. Insofar as preparedness is concerned it is highly improbable that a large military demand can suddenly be superimposed upon a maximum civilian demand. From a practical point of view it would seem that a reasonable stockpile would provide suitable insurance. Another alternative might be that of strictly arsenal type plants specifically held in reserve by the Government against a war emergency.

Page 3, first paragraph, and page 20

The lack of availability of suitable low-cost hydroelectric power projects to the aluminum industry within the United States is largely due to the fact that our Government has pre-empted such possibilities. The one exception we believe is the opportunity that Alaska offers. Alcoa has studied a project in Alaska which, we believe, will meet all the necessary requirements for a sound development from a strategic as well as an economic point of view and is infinitely preferable as to wartime security to the United States becoming dependent on aluminum produced outside of our country. This project and undoubtedly other Alaskan projects are susceptible to expansion for large scale production. Alcoa is prepared to undertake the financing and construction of its Alaska project upon receipt of the necessary Government approvals and assurances of cooperation.

Page 3, last line

We believe this would be clearer if the word, "sources", were changed to the word, "ores."

Pages 4, 28, and 39–40

In view of the very real competitive situation existing in the aluminum industry it is difficult for us to understand the apparent thought as expressed that the

Government has a continuing policing job ahead of it to make the aluminum industry more and more competitive. The competitive structure of the aluminum industry, measured by the ability of each producer to compete effectively, is outstanding. This is one problem that has been solved on a constructive basis due both to planning by the Government and cooperation by the industry. In our antitrust case Judge Knox found that there was effective competition, and it would seem that the only proper function of the Government is to be sure that that effective competition is protected. This certainly cannot be accomplished by forcing an overexpansion of the industry or by improperly reducing tariffs and by turning over our domestic markets to foreign producers.

Page 5

It is not clear whether the second sentence means to refer to "volume" as distinguished from "tonnage." However, on a volumetric basis aluminum consumption is already greater than that of zinc, copper, and lead combined. In the 12th line the word, "heating," should be "heat."

Page 6, first paragraph

All of us in the aluminum industry recognize the enormous impetus being given to the use of aluminum for many applications which heretofore largely used copper. However, it is obvious that as aluminum replaces copper to any major extent, copper prices relative to aluminum will be forced downward. Therefore, we question the justification of the statement that "the shift in relative prices can be expected to become even more attractive."

Page 7

It is incorrect to refer to building products as a new market. Aluminum has gone into this market for many years but in recent years it has grown enormously and probably should be referred to as "the most rapidly growing market."

Page 8, last paragraph

We believe that there should be added to the end of this paragraph "and most recently by the Korean emergency."

Page 9, last paragraph

We do not recognize the 500,000-ton figure given as the amount of aluminum which was eliminated from the military requirements during World War II. We question this figure, and even if it is in any way justified, it should be made clear that it is the amount that could have been used over the entire war period and does not represent an annual figure such as is used elsewhere throughout the report.

Page 10, second paragraph

"Household wiring" might better be termed "building wiring" as aluminum wiring is used to an even greater extent in industrial and similar buildings than in houses. Also the reference to collapsible tubes should indicate that aluminum has superseded tin as well as lead.

Page 12, last paragraph

The statement is made that "scrap can be expected to constitute an increasing proportion of the aluminum supply so that it may by 1975 furnish 20 percent of the total consumption as contrasted with 10 percent in recent years." Under normal conditions in recent years scrap has supplied from 20 to 25 percent of the market requirements for aluminum. It is anticipated that as consumption increases the proportion of scrap will also increase as has been the case with steel and copper and that, under reasonably level total consumption from year to year, the scrap supply will reach a figure of about 40 percent. It is, therefore, much more reasonable to assume that by 1975 the scrap supply will furnish approximately 35 percent of the total aluminum consumption. Merely for your information it is also of interest to note that while there have been wide fluctuations in the amount of the domestic market supplied by imported aluminum, it has averaged approximately 10 percent. It would seem reasonable to expect that this proportion would be somewhat higher in the future. We believe these more accurate figures as to the amount of scrap which can be expected to come into the market should be used in estimating the primary aluminum requirements.

Page 20

The second full sentence is not clear.

Page 22, first paragraph

We believe gas should be added as an alternative to coal in connection with the materials required in the extraction of alumina. In the second paragraph it would seem that you might wish to add cryolite as one of the materials used in the reduction of alumina to metal. This omission may be deliberate on the assumption that the industry will depend on synthetic cryolite and use no natural cryolite. However, as both synthetic cryolite and aluminum fluoride require sulfuric acid as well as fluorspar, it would seem that sulfuric acid should be added to this list.

Page 30, second paragraph, and pages 35–36

In discussing reliance on imported aluminum for an increasing proportion of domestic requirements the question of security considerations is the only point raised against such a program. It would seem very shortsighted for our country to build an economy which presupposes the importation of a large proportion of its greatly expanding aluminum requirements. While the Canadian aluminum producer has not taken advantage of price possibilities during the present emergency, other importers of aluminum have done so, obtaining prices in some cases as much as double the domestic price. Furthermore, we need only to look at such commodities as rubber, tin, etc., to see what can happen to the prices of materials which we must import. If we are not to expand our national productive capacity for those materials and articles which have some lower elements of cost when produced elsewhere throughout the world, we will soon lose all that this Nation stands for. There would seem to be little consistency to the arguments pointing out the need of expanded aluminum production from a security point of view and the suggestion that the tariff on aluminum pig, ingot, and scrap should be adjusted downward. Similarly, there would seem to be little justification for the halfhearted support for the present 3 cents per pound tariff on fabricated aluminum. This tariff is fully justified and we fear may be found to be quite inadequate.

Page 32, second paragraph

The statement is made that "during World War II heavy shipping losses practically cut off the imports of bauxite into the United States * * *." This statement is a repetition of similar ones which have come to our attention and which are not based on actual facts. Those facts are that during the entire period of our participation in World War II there were 489 northbound sailings and 426 southbound sailings in the bauxite service between the United States and the north coast of South America. Of the northbound sailings there were 16 sinkings and of the southbound sailings there were 10 sinkings. Therefore, out of a total of 915 sailings there were 26 sinkings or less than 3 percent. Some of those sinkings were of vessels bound for the north coast of South America to pick up bauxite cargoes but the vessels themselves were in the Atlantic rather than the Caribbean.

Furthermore, it should be recognized that the greater part of these sinkings occurred during a period when admittedly inadequate protection was given to this shipping.

Page 39, second paragraph

The statement is "a circuit court * * * held, essentially, that Alcoa was an illegal monopoly * * *." The finding would be correctly stated if this read "that Alcoa, as the sole domestic smelter of aluminum, monopolized the aluminum ingot market." The holding was confined to the ingot market, and Alcoa was affirmatively exonerated of monopoly charges both in the raw-material field and in its fabricating operations.

Page 40, second paragraph

This reads "* * * required Alcoa to relinquish control of the single Canadian producer, Aluminum Co., Ltd." To be accurate this statement should read "* * * required certain holders of Alcoa stock who also held approximately 38 percent of the stock of Aluminum, Ltd., to sell their stock in one company or the other. All elected to sell their Aluminum, Ltd., stock. Another group of Alcoa stockholders who held approximately 13 percent of the stock of Aluminum, Ltd., was required, for a period of time, to give up their voting rights in Aluminum Ltd."

In commenting upon certain specific points we have not in every instance pointed out where that same point may be referred to elsewhere in the report. However, we believe that these cases will be recognized. Of course, any revisions as to any of these points should be made consistent throughout the report.

We appreciate the opportunity of examining the report and supplying you with our comments and suggestions. Our only objective in making these comments and suggestions is that the report be accurate as far as our knowledge makes that possible. I hope that we have been helpful.

Sincerely,

I. W. WILSON, *President.*

Section III. Statements submitted to the United States Tariff Commission in October 1955 on the question of reducing the tariff on primary aluminum imported from Canada

(1) ALUMINUM LIMITED SALES MEMOS

BEFORE THE

UNITED STATES TARIFF COMMISSION

AND

COMMITTEE FOR RECIPROCITY INFORMATION

In the Matter of Proposed Negotiations Under the Trade Agreements Act of 1934 as amended and extended.	Aluminum and Aluminum Alloys in crude form, Paragraph 374, Tariff Act of 1930.

MEMORANDUM OF ALUMINIUM LIMITED SALES, INC., NEW YORK, NEW YORK, IN SUPPORT OF MAXIMUM POSSIBLE REDUCTION IN EXISTING TARIFF DUTY

BEFORE THE

UNITED STATES TARIFF COMMISSION

AND

COMMITTEE FOR RECIPROCITY INFORMATION

In the Matter of Proposed Negotiations Under the Trade Agreements Act of 1934 as amended and extended.	Aluminum and Aluminum Alloys in crude form, Paragraph 374, Tariff Act of 1930.

MEMORANDUM OF ALUMINIUM LIMITED SALES, INC., NEW YORK, NEW YORK, IN SUPPORT OF MAXIMUM POSSIBLE REDUCTION IN EXISTING TARIFF DUTY

General Statement

Aluminium Limited Sales, Inc., is a New York Corporation engaged in the importation and distribution in the United States of primary aluminum and aluminum alloys produced by the Aluminum Company of Canada Ltd. (Alcan).

On November 21, 1950 the Tariff Commission denied and dismissed applications of the Reynolds Metals Co. and Kaiser Aluminum and Chemical Corp. for an investigation of crude and semimanufactured aluminum under the escape clause provisions of the Trade Agreements Act. In so acting, the Commission stated in part:

> "* * * conditions in the aluminum market were rapidly changing. Since June 1950, the expanding national defense program has increased greatly the already large demand for aluminum. The increase in demand has in fact been so great as to create a severe shortage in the supply of aluminum, *a shortage which is*

likely to persist for an indefinite period. So long as these conditions continue, there will be need for all the aluminum which can be obtained from any source, and *imports* from Canada *will not be injurious to any segment of the domestic aluminum industry.*" (Italics added)

The finding of the Commission is applicable today with even greater force. Existing and foreseeable conditions demonstrate that there is no need for any tariff duty whatever on aluminum and aluminum alloys in crude form, and that the existing duty constitutes a wholly unnecessary burden on imports with no benefit to the American industry or consumer. The public and national interest would be best served by the maximum possible reduction in the existing duty of 1½ cents per pound on such products covered by Paragraph 374, Tariff Act of 1930, as amended.

Facts in support of this conclusion, hereinafter more fully developed, may be summarized as follows:

Summary of Facts Presented

I—Aluminum and aluminum alloys in crude form have been and are in short supply and said shortage is expected to continue, despite recent tremendous expansion of domestic industry and contemplated further additions.

II—Domestic industry has grown and prospered greatly under successively lower tariff duty, with further rapid growth and increased profits indicated.

III—Imports principally from Canada supplement inadequate domestic production and represent an important source of supply for primary producers as well as non-integrated users.

IV—Canada, the principal import supplier, has also greatly expanded its facilities, but the amount of primary aluminum available for the United States market remains insufficient to meet the present and foreseeable demand.

V—Maximum reduction in duty to 1¼¢ per pound now possible under existing limited powers would not threaten domestic production needed for projected national defense requirements.

VI—Complete removal of existing duty or maximum reduction in duty would be in public and national interest.

Description and Uses of Products and Tariff History

Aluminum is the most important commercial light metal. When alloyed with small proportions of other metals it has physical characteristics which make it adaptable for many structural and other engineering uses. In recent years, hundreds of new applications and uses such as in the architectural and building fields have been developed. Use of aluminum has expanded to such an extent that at the present time the rated capacity of fabricating facilities in the United States in the aggregate are greatly in excess of production of the primary product. The United States is today, therefore, and historically has been, a net importer of aluminum every year for the past 37 years, with two exceptions, 1939 and 1944.

Historically, aluminum and alloys in chief value of aluminum, have received identical tariff treatment. Under the Tariff Act of 1930 these products in crude form were subject to a duty of 4¢ per lb. Said duty was first reduced to 3¢ per lb. in the Reciprocal Trade Agreement with Canada of 1939, further reduced to 2¢ per lb. in the General Agreement on Tariffs and Trade of 1948, and reduced to the present rate of 1½¢ per lb. in the Torquay Agreement, effective 1951. In each instance the change in duty was negotiated by the United States with Canada.

Aluminum scrap has been omitted from the list of products to be considered for possible changes in the present trade negotiations. Scrap is now free of duty by special act of the Congress. It is an important product as it forms a source for recovery of aluminum metal generally denominated secondary metal, which then forms part of the supply of the crude product. The problem of meeting the currrent and foreseeable short supply for the market of the United States, however, is essentially one of primary aluminum and alloys in crude form. Discussion hereinafter is accordingly confined thereto.

POINT I

Aluminum and aluminum alloys in crude form have been and are in short supply and said shortage is expected to continue despite recent tremendous expansion of domestic industry and contemplated further additions.

Since World War II the aluminum industry has had recurrent shortages. During World War II, the United States Government found it necessary to call upon Canada for large quantities of crude aluminum which it imported duty free to assist in easing the emergency demands.

Immediately following the war, aluminum was in good supply due principally to large inventories built up during the war and large amounts of scrap available for recovery. By the end of 1947, however, so many new uses had developed and so many additional fabricators had entered the field that a new crisis of supply arose.

The outbreak of the Korean war again intensified the critical supply situation. There ensued a great expansion of the aluminum industry, despite which at the current time there exists one of the worst shortages of record. The present day situation is well expressed by an executive of the Kaiser Aluminum and Chemical Corp. as follows:

> "The magnitude and duration of the current record high consumption rate, plus high stockpile requirements, has created an unbalance between supply and demand. While all sections of the industry are operating at record highs, there are those who request still more metal. * * *" (Prepared statement D. A. Rhoades, Vice President and General Manager, Kaiser Aluminum and Chemical Corp., Select Sub-Committee, House Small Business Committee on Investigation of Aluminum Shortage. May 25, 1955.)

The Select Sub-Committee of the House Small Business Committee, it will be noted, was specifically investigating shortages and long range problems in the aluminum industry. As stated by the chairman, Mr. Yates of Illinois, at the outset of the hearing:

> "We are holding these hearings because of complaints from small business men in the aluminum industry that they cannot

obtain metal for fabricating. They protest against the unfair action of the primary producers in retaining aluminum for their own use after satisfying the requirements of the stockpile."

This problem of supply of primary aluminum for non-integrated users lies at the heart of the aluminum supply situation. There are at the present time four producers of primary aluminum in the United States, namely, The Aluminum Company of America, the Reynolds Metals Company, the Kaiser Aluminum and Chemical Corp., and the Anaconda Aluminum Company. Each of these primary producers has fabricating facilities of its own.

The Reynolds Metals Co. supplies primary aluminum to non-integrated independent fabricators, but according to the President, Mr. R. S. Reynolds, the Reynolds Company

"* * * is primarily a fabricator of aluminum. We always have been. Our primary reason for producing pig was to provide our own fabricating plants with raw material." (Testimony before Yates Small Business Committee, idem page 478.)

The Aluminum Company of America has extensive fabricating facilities which are reported to be greater than its primary capacity, but does supply primary aluminum to the non-integrated users.

The Kaiser Corp., like Reynolds and Alcoa, supplies primary aluminum to non-integrated users, but that company also reportedly utilizes most of its output of crude aluminum in its own fabricating operations.

The Anaconda Aluminum Company, which began primary production operations only in 1955, is understood to have been established mainly for the purpose of furnishing the crude product for use in fabricating plants owned by affiliates.

All four producers have announced plans to enlarge their aluminum fabricating facilities.

This integrated system of operation of the four domestic producers results in an uncertain and variable domestic source of supply for the non-integrated users and manufacturers of aluminum products.

Furthermore, these users and manufacturers must compete directly with the primary producers in sale of many of their semi-finished products.

The domestic industry has expanded greatly in recent years in an effort to meet the shortage of crude aluminum. In 1950, the year preceding the last change in tariff duty, the annual primary aluminum capacity for the three companies then in existence amounted to 727,075 short tons. At the present time capacity in place amounts to 1,533,000 tons, with one new company having entered the field, namely, the Anaconda Aluminum Company.

Plans have been announced for further expansion by Alcoa and additional new capacity by two new concerns entering the field which, if carried through, would increase capacity to 1,778,000 tons.

This anticipated capacity of 1,778,000 tons consists of 1,533,000 tons now in place; 65,000 tons under construction by the Aluminum Company of America; and planned expansion of 180,000 tons of which two new concerns, The Harvey Machine Company and Olin-Mathieson Chemical Corporation, would contribute 54,000 and 60,000 tons respectively, and Alcoa a further 66,000 tons. Two other concerns are reported to have aluminum production under consideration, namely, Revere Copper & Brass, Inc. and St. Joseph Lead Company in association with Pittsburgh Consolidation Coal. Reynolds and Kaiser have also announced plans for increasing capacity by 135,000 tons and 90,000 tons respectively. The actual doubling of domestic capacity in the past five years and the projected additional capacity, however, will fall far short of meeting anticipated market requirements if anything like the normal growth of the industry is continued.

The Department of Commerce has estimated that the need for primary aluminum in the United States during the current year will equal the total expected supply of 1,772,000 tons including imports. By 1975, according to the President's Commission on Raw Materials Policy, the so-called Paley Commission, in its report issued in 1952, the demand for primary aluminum will reach a total of 3,600,000 tons.

Consumption of aluminum has increased at an average annual rate of 11.6% over the last 54 years according to the Department of

Commerce. See chart, Exhibit A, Appendix. Continuation of even this average growth in the years ahead would make the figure of the Paley Commission of 3,600,000 tons much too low an estimate. There is a continuing necessity for imports, particularly from Canada, to assist in meeting this increasing demand.

A table showing the aluminum supply to the United States for the years 1950-1954, inclusive, and projections for the full years 1955 and 1956, as prepared by the Department of Commerce, is set forth in the appendix hereto as Exhibit B.

Reference to this table demonstrates that in its calculations of supply the Department of Commerce estimates capacity operation of the domestic industry of 1,500,000 tons in 1955 and an increase in domestic output in the year 1956 to 1,600,000 tons. The Department's figures further include estimated imports from Canada of 225,000 tons in 1955 and 283,000 tons in 1956. Evidence of record indicates that this increased supply will still be inadequate.

The continuing need for imported crude aluminum is well illustrated by the recent action of the Director of Defense Mobilization in reducing the amount of aluminum to be acquired for the national stockpile. At least three separate such actions have been taken in the year 1955, one in March, another in June, and the latest in September. The announcement of the action in March, 1955, includes a letter from the Director of Defense Mobilization to the Secretary of Commerce reading as follows:

"Dear Mr. Secretary:

> Your letter of March 11 forwarded an analysis of the current aluminum market and stated that the supply of aluminum ingot, both primary and secondary, was insufficient to meet the immediate demands of the industrial economy. As a result there has developed serious industrial dislocation and threatened unemployment. You have requested that the Office of Defense Mobilization give serious consideration to a reduction of the scheduled acquisitions of aluminum for the National stockpile so as to make more metal immediately available for the civilian economy.

After very careful consideration of the issues presented and following consultation with the Defense Mobilization Board, I am ordering a reduction of 150 million pounds in the Government's purchases of aluminum for the stockpile under its contracts with the three primary producers during the first six months of the current calendar year."

In the release announcing the deferral of stockpile acquisition in June, 1955, the following statement is made:

"The decision to defer stockpile calls for the third quarter was made by Mr. Fleming following discussion in the Defense Mobilization Board of recommendations contained in a report submitted on June 3 by Secretary of Commerce Sinclair Weeks. The Commerce report stated that after recent discussions with all segments of the aluminum industry, it was found that the shortage of aluminum supply is still extremely serious and further steps had to be taken to alleviate the shortage in order to avoid further industrial dislocations."

In the statement announcing further deferral of stockpile deliveries issued under date of September 13, 1955 the following statement is made:

"The balance of scheduled deliveries to the national stockpile totaling 75,000 tons is being deferred until a later date. This tonnage is being made available for industrial use in this country to alleviate a serious shortage of aluminum. It is in addition to the 350,000 million pounds which similarly have been made available thus far this year to avoid industrial dislocations in the United States."

POINT II

The domestic industry has grown and prospered greatly under successively lower tariff duty with further rapid growth and increased profits indicated.

1954, like the year 1953, was a year of new records for the United States aluminum industry. New monthly and quarterly records were set in primary production of the metal and the year's total of 1,460,565

short tons exceeded by 16.7% the previous record set in 1953. The situation in the industry is well illustrated by the following statement describing the operations of the Kaiser Aluminum & Chemical Corporation:

> "The present market is the largest in history. * * * Our shipments in all products are at record levels and, assuming stockpile acquisitions at the present rate, shipments of primary pig, ingot and billet to non-integrated users will amount to more than 210 million pounds this year. During 1955 Kaiser will deliver more primary metal to non-integrated users and the national stockpile combined than we produced in all of our reduction facilities in 1951." (Statement D. A. Rhoades, vice president, Kaiser Aluminum & Chemical Corp., Select Sub-Committee House Small Business Committee, hearings on aluminum shortage—May 25, 1955.)

The 1954 annual report of the Aluminum Company of America states in part at page 3:

> "The outlook for the company, and for the aluminum industry in general, is most encouraging. Demand for aluminum and its products is strong. Important new markets are developing, and established uses are requiring increased amounts of metal. Long-range potentials are also highly promising."

The high level of operations and growth of the domestic industry is reflected directly in the following Table No. 1, showing production of primary aluminum in the United States for the years 1930-1954, inclusive, and the first six months of 1955. The table shows also the rate of tariff duty in effect and the annual increase in output.

TABLE NO. 1

PRODUCTION OF PRIMARY ALUMINUM IN THE UNITED STATES

1930-1955 (6 Mos.)

Year	Rate of Duty	Production, Short Tons	—Annual Increase— Short Tons	Per Cent
1930	4¢ per lb.	114,518	532	.5
1931	" " "	88,772	25,746*	22.5*
1932	" " "	52,444	36,328*	40.9*
1933	" " "	42,562	9,881*	18.8*
1934	" " "	37,088	5,474*	12.9*
1935	" " "	59,647	22,559	60.8
1936	" " "	112,464	52,817	88.5
1937	" " "	146,340	33,876	30.1
1938	" " "	143,441	2,899*	2.0*
1939	3¢ " "	163,545	20,104	14.0
1940	" " "	206,280	42,735	26.1
1941	" " "	309,067	102,787	49.8
1942	" " "	521,106	212,039	68.6
1943	" " "	920,179	399,073	76.6
1944	" " "	776,446	143,733*	15.6*
1945	" " "	495,060	281,386*	36.2*
1946	" " "	409,630	85,430*	17.3*
1947	" " "	571,750	162,120	39.6
1948	2¢ " "	623,456	51,706	9.0
1949	" " "	603,462	19,994*	8.2*
1950	" " "	718,622	115,160	19.1
1951	1½¢ " "	836,881	118,259	16.5
1952	" " "	937,330	100,449	12.0
1953	" " "	1,252,013	314,683	33.6
1954	" " "	1,460,565	208,552	16.7
1955 (6 mos.)	" " "	759,867		

* Decrease

Source: U. S. Bureau of Mines.

The greatly expanded production of primary aluminum by domestic producers has resulted in large profits and in marked strengthening of the financial position of each of the domestic producers. The Kaiser Aluminum & Chemical Corporation in its annual report covering the fiscal year 1954-1955 reports that net earnings were the highest achieved by the corporation, more than double the net earnings for the previous year. The increase in earnings, the report states:

> "* * * is a result of bringing the facilities constructed under the expansion program begun in 1951 up to full productive capacity, together with strong demand for aluminum products during recent months."

The report states further:

> "This is a time of new records of achievement * * *. Commercial sales and demand for aluminum are very strong and also most encouraging for the future. The Corporation, during the last year has reached new highs of production, larger sales volume and higher earnings. It not only has reaped benefits of three past years of expansion, but has gone forward with further growth and integration of key facilities."

The report goes on to state (p. 6):

> "The Corporation's net earnings for the year ended May 31, 1955, were more than double those for the previous year, setting a new high of $28,565,377. Sales rose to a new record exceeding $268,000,000, an increase of 18.3 per cent over the previous year. Working capital increased during the year from $48,000,000 to $73,000,000. The annual rate of cash dividends on the common stock was increased 73 per cent.
>
> In each successive quarter of the 1954-1955 fiscal year, sales and net earnings were increased substantially. The steady rise in commercial sales throughout 1954 developed into a sharp upturn this year and, despite the fact that expansions made possible all-time highs of aluminum production and shipments, demand exceeded the supply of several forms of aluminum."

The foregoing covered operations of the Kaiser Company for the fiscal year ending May 31, 1955. For the quarter ending August 31,

1955, the remarkable progress of this company continued. Thus sales rose from $61,419,000 in the comparable quarter of 1954 to a new high for that period of $77,451,000. Net profit before taxes increased from $10,811,000 to $18,192,000.

The Aluminum Company of America in its annual report covering the calendar year 1954, reports that the company's production of primary aluminum in 1954 was about 665,000 tons which is nearly 9% greater than the 1953 production. The report states that this increase was possible because of placing in operation new smelting facilities during the year, and that even greater total production was prevented by drought conditions in the Southeast which curtailed the supply of hydro-electric power in that region. For the first six months of 1955, operating revenues are reported to have reached a new six-month peak, up 20% from year-earlier levels. Margins were considerably wider and charges for depletion and normal and accelerated depreciation were up only 14%, creating an 83% gain in pretax profits. The advance in net income is reported at 87%. The company is reported to have under way an expansion program which includes a 91,000 ton increase in ingot capacity and larger sheet and foil facilities.

Reynolds Metals Company in its 1954 annual report issued February, 1955, reports that production, sales, profits and employment were all at highest levels in the company's history. It produced 802 million pounds of primary aluminum in 1954 as compared with 665 million pounds in 1953, and further reported that many new industrial uses for aluminum forecast continued growth of the industry.

As further evidence of the tremendous growth and strong financial position of the domestic industry, there is set forth hereafter a comparison of net sales and earned surplus of Alcoa, Reynolds and Kaiser for the years 1949 and 1950, the last full fiscal periods preceding negotiations which resulted in the present rate of duty, and 1954:

	ALCOA		KAISER		REYNOLDS	
	1950	1954	1949-50[a]	1954-5[a]	1949	1954
Net Sales	$347,108,386[b]	$713,004,925[b]	$76,246,111	$268,133,162	$131,864,684	$306,778,822
Earned Surplus at end of period	222,668,820	343,413,091	38,448,611	61,422,232	35,151,805	76,899,221

a) Kaiser's fiscal year ends May 31st.
b) Gross revenues instead of net sales.

The unparalleled growth and prosperity of the domestic aluminum industry has taken place during a period of time when the tariff duty on the product in crude form has been progressively lowered from 4 cents to 1½ cents per pound. (See Table No. 1 *ante*.) The greatest growth and profits of the industry have occurred under the present rate of 1½ cents per pound, affording compelling evidence that the further limited reduction now possible in such rate would have no injurious effect on the present or future operations of that industry. This conclusion is amply fortified by the fact that imports principally from Canada supplement and do not displace any portion of the domestic supply.

POINT III

Imports principally from Canada supplement inadequate domestic production and represent an important source of supply for primary producers as well as non-integrated users.

The United States produces slightly less than one-half of the world's total production of primary aluminum. Canada is the next largest producer. Together the two countries account for 60 to 70% of the world's total. The output of other producing areas in the world is largely consumed in the country of production or areas adjacent thereto. Normally, only small quantities of the product are shipped to the United States from any source other than Canada. See Table No. 2. This historic experience would be expected to continue.

The United States, as stated earlier, has been a net importer of aluminum for most of the time that that metal has been a product of commerce and Canada has been the principal supplier. Imports of aluminum metal and alloys in crude form from Canada and from all sources for the period of 1940 to and including the first six months of 1955 are set forth in the following Table No. 2.

TABLE NO. 2

IMPORTS OF ALUMINUM AND ALLOYS IN CRUDE FORM

1940 to 1955 (Six Months)

	Canada		Total	
Year	Short Tons	Value	Short Tons	Value
1940....	10,053	$ 3,961,080	17,435	$ 4,628,601
1941....	12,801 (82)[1]	3,327,087	12,830	3,333,642
1942....	106,257 (100,609)[1]	33,289,889 (31,309,153)	106,257	33,289,903
1943....	135,503 (124,645)[1]	41,170,328 (37,231,628)	135,505	41,170,788
1944....	100,315 (100,163)[1]	29,736,189 (29,690,291)	100,315	29,736,189
1945....	332,436 (330,483)[1]	96,931,509 (96,385,253)	332,437	96,932,769
1946....	41,431	9,977,087	41,487	9,986,327
1947....	15,306	3,674,937	15,579	3,723,514
1948....	77,391	18,958,620	83,164	21,332,336
1949....	71,031	18,750,932	77,329	21,569,460
1950....	155,334	40,862,983	176,778	48,366,733
1951....	105,575	33,012,462	122,404	41,395,428
1952....	115,829	37,439,544	128,233	43,504,881
1953....	224,017 (10,286)[1]	82,202,982 (3,749,381)[1]	300,928 (57,197)[1]	115,761,297 (25,039,141)[1]
1954....	196,283 (19,958)[1]	74,564,406 (7,305,885)[1]	215,250 (37,467)[1]	83,450,536 (15,283,860)[1]
6 Mos. (1955)	95,371 (1,104)[1]	38,895,778 (461,262)[1]	99,994 (2,859)[1]	41,161,107 (1,176,226)[1]

[1] Note: Figures shown in parentheses indicate quantity imported free of duty for Government use.

Source: U. S. Dept. of Commerce, converted from lbs. to short tons at 2,000 lbs. per short ton.

Table No. 2 sharply points up the importance of Canada as a source of supply of primary aluminum to the United States.

The fact that imports supplement and do not displace domestic production is established by the fact that the domestic producers have found it necessary to purchase primary aluminum from Canada to fill their requirements and that contracts for a continuance of such supplemental supply are still in effect, some of which call for deliveries up to the end of the year 1958.

Purchases of imported Canadian primary aluminum by these domestic producers account for a large part of total imports from Canada in recent years. Such purchases were not a matter of price, as primary aluminum imported from Canada was sold at the same price as the primary metal produced and sold by Alcoa, Kaiser and Reynolds. The said such purchases and the existing contracts were the result solely and only of the inability of these domestic producers to make enough primary aluminum to meet their own requirements.

Aluminium Limited Sales Inc. in its sales to the markets of the United States, sells primary aluminum directly to producers as a supplementary supply and also to non-integrated users. Sales to the latter group are made on a direct basis for the concern's own further processing and resale, or on the basis of diversion to one of the domestic producers for preliminary fabrication into intermediate products.

The distribution of sales of imported primary aluminum by Aluminium Limited Sales Inc. to United States producers and non-integrated users for the period 1946 to 1954, and an estimate of such sales for the year 1955, is set forth in the following Table No. 3.

TABLE NO. 3

DISTRIBUTION OF SALES OF PRIMARY ALUMINUM BY ALUMINIUM LTD. SALES, INC. TO UNITED STATES PRODUCERS AND NON-INTEGRATED USERS, 1946-1955 (6 mos.)

Year	*To Producers Short Tons*	*To Non Integrated Users Short Tons*	*Total Short Tons*
1946	28,059	1,390	29,449
1947	11,811	428	12,239
1948	60,000	19,797	79,797
1949	62,465	9,721	72,186
1950	127,356	32,300	159,656
1951	54,081	56,338	110,419
1952	37,614	75,342	112,956
1953	105,300	124,500	229,800
1954	87,900	116,825	204,725
1955 (6 mos.)	57717	59,940	117,657

Source: Sales records, Aluminium Ltd. Sales, Inc.

Totals include aluminum from all sources but exclude shipments to the United States Government.

The foregoing Table No. 3 reflects the recurring shortages of primary aluminum in the markets of the United States. It reflects also the recent contractual arrangements entered into with producers in this country.

In May, 1953, Aluminium Limited Sales Inc. entered into agreements for the sale to Aluminum Company of America and Kaiser Aluminum & Chemical Corporation aggregating 786,000 tons of aluminum, to be delivered during the years 1953-1958, inclusive.

In 1953 to meet the then-expected needs of independent fabricators in the United States, Aluminium Limited Sales Inc. prior to the signing of the contracts with Alcoa and Kaiser, reserved up to 110,000 tons

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per year for each of the years 1953 through 1959. The forward demand for the product, however, has been so great that Aluminium Limited Sales Inc. expects to ship in excess of this figure prior to 1959 and has already committed itself for greater amounts beginning in 1959.

The ability of Aluminium Limited Sales, Inc. to meet the insistent and increasing demands in the United States for additional quantities of primary aluminum from Canada depends upon the extent the industry in Canada may be able to increase its production, or, consistent with its world market commitments, ship a larger portion thereof to the United States. The fact, however, that three domestic producers have found it necessary in the face of capacity operations and large expansion plans to enter into long range commitments for primary aluminum imported from Canada, together with the reliance of many non-integrated users upon the imported Canadian product to maintain their operations, is compelling evidence that there is no need for the existing duty and the extent to which it may be removed or reduced will aid and encourage this necessary commerce.

POINT IV

Canada, the principal import supplier has also greatly expanded its facilities, but the amount of primary aluminum available for the United States market has remained insufficient to meet the present and foreseeable demand.

The aluminum industry in Canada, along with the industry in the United States has been undergoing a period of expansion. This program, begun in 1951, included additional power and greater smelter facilities at the plants of the Aluminum Company of Canada, Ltd., in the Saguenay district of Quebec. Completed in 1952-1953, this added 71,500 tons of annual aluminum capacity, raising the total to 547,000 tons in Quebec.

The initial stage of the expansion program in British Columbia, the vast power smelter-complex at Kitimat, was brought into operation in the summer of 1954. The present installed capacity of primary aluminum is 91,500 tons with an ultimate planned capacity of 550,000 tons. New construction now under way is scheduled at 240,000 tons

and 90,000 tons of this will be in operation by the end of 1956. The Canadian aluminum industry supplies a number of world markets in addition to its shipments to the United States and has a definite obligation to continue to supply its historical and established customers elsewhere. The relationship of shipments to the United States as compared with world wide distribution of primary aluminum production in Canada in the years 1949 through the first six months of the year 1955, is set forth in the following table No. 4.

TABLE NO. 4

SHIPMENTS OF PRIMARY ALUMINUM PRODUCED IN CANADA TO UNITED STATES & OTHER MARKETS

1949-1955 (6 Mos.)

(short tons)

	1949	1950	1951	1952	1953	1954	1955 (6 Mos.)
United States	73,700	162,250	103,100	114,500	237,000	192,560	101,937
United Kingdom	161,500	146,300	199,750	257,750	184,600	221,800	118,490
Canada	57,900	66,000	86,350	88,550	90,200	80,000	42,645
All Others	53,000	41,600	53,800	39,150	37,900	60,840	29,922
Total	346,100	416,150	443,000	499,950	549,700	555,200	292,994

(in percentage)

United States	21.3	38.9	23.3	22.9	43.1	34.7	34.8
United Kingdom	46.7	35.2	45.1	51.6	33.6	39.9	40.4
Canada	16.7	15.9	19.5	17.7	16.4	14.4	14.6
All Others	15.3	10.0	12.1	7.8	6.9	11.0	10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The foregoing Table No. 4 demonstrates the increasing extent to which the United States has called upon Canada to supplement its inadequate supply of primary aluminum. In 1954, a little more than one-third of the total Canadian production was shipped to the United States. The great growth of aluminum demand, however, has occurred elsewhere in the world also with the result that the demand for the product in crude form is on the increase throughout the world. Part of the expanded output in Canada will be required by these other markets.

This potential increase in Canadian shipments to the United States, however, even when added to the tremendous expansion program of the domestic industry, will fall short of meeting requirements of the United States market if existing trade forecasts of the growth of the aluminum demand in the United States are borne out in whole or substantial part.

POINT V

Maximum reduction in duty to 1¼¢ per lb. now possible under existing limited powers would not threaten domestic production needed for projected national defense requirements.

The Trade Agreements Extension Act as amended provides that no action shall be taken pursuant to the Trade Agreements statute to decrease the duty on any article if the President finds that such reduction would threaten domestic production needed for projected national defense requirements. That this provision is no bar to the maximum reduction in duty possible on aluminum in crude form is established by facts of record.

On September 22, 1955 the Office of Defense Mobilization announced that the primary aluminum expansion goal which called for an annual capacity of 1,746,000 tons by 1955 was closed because capacity in place, under construction, and planned, would reach a total of 1,780,000 tons exceeding the objective of the expansion goal by 32,000 tons. The Director of Defense Mobilization stated in this connection:

> "* * * Anticipated total capacity, which does not include tentative plans by other companies, appears sufficient to meet current stock-

pile and Defense Programs as well as to the needs of the military, military supporting facilities, and the essential civilian economy in the event of a defense emergency."

In making this statement the Director, Arthur S. Flemming went on to point out that the shortage of supply in the industry resulted from increased demands for civilian purposes. In closing, the statement of the Office of Defense Mobilization reads:

"Mr. Flemming noted that the present tight aluminum supply stems almost entirely from unprecedented civilian demand occassioned by new uses for the metal and the high level of civilian industrial activity. The problem of meeting civilian demand, he said, obviously is the responsibility of private enterprise."

The maintenance and encouragement of continued and increasing supplies of primary aluminum from Canada are necessary to meet, in part, the problem of this civilian demand.

Reduction of the duty on aluminum in crude form would not, therefore, threaten national defense requirements and needed imports of aluminum from Canada are highly desirable as a part of national defense requirements as well as civilian needs.

Attention is redirected to the fact that during World War II large quantities of aluminum in crude form were imported from Canada by the United States Government as an emergency measure, free of duty, to meet necessary requirements here.

The Office of Defense Mobilization also takes imports from Canada into consideration in its calculation of supplies of aluminum in crude form available to meet the total requirement of the United States in mobilization demand. Thus, in announcing discontinuance of the so-called "third-round" aluminum expansion program on August 19, 1954, the Office of Defense Mobilization stated, in part:

"Review of the total requirements of the economy indicated, ODM official said, that with capacity domestic production, *expected imports from Canada,* secondary production from scrap, and metal in the stockpile there would be sufficient aluminum available to take care of all-out mobilization requirements for a number of years

of war. This period would provide ample time to develop additional primary facilities should they be needed." (Italics added)

The Bureau of Mines has also stated in a publication entitled "Material Survey—Bauxite":

> "The aluminum industry of the United States and Canada is regarded as a single unit from an emergency standpoint." (*Idem*, R. A. 5)

POINT VI

Complete removal of existing duty or maximum reduction to 1¼¢ per pound now possible under existing limited powers is in public and national interest.

The Trade Agreements Extension Act, as amended, permits a reduction up to 15% to be made effective over a three-year period. A reduction of 15% from the existing rate of 1½¢ per pound on aluminum and alloys in crude form would result in a duty of $.01275 per pound. This would be an unusual and difficult fractional rate to apply from an administrative standpoint. Every reason seems to exist for invoking the further provision of the law, therefore, that to simplify the computation of the amount of duty, the rate be, in effect, rounded out. This may be accomplished within the limitations of Section 350 by fixing a new reduced rate of 1¼¢ per lb. This would bring a new rate into conformance with the fractional rates commonly and normally used in the Tariff Act.

Aluminum in crude form is in critical short supply.

The domestic industry has expanded tremendously, but is still unable to meet existing and foreseeable needs.

Imports principally from Canada have, over the years, supplemented the supply and assisted in maintenance of operations by the domestic primary producers and non-integrated users.

Encouragement of imports would assist and would not threaten the national security.

The domestic industry has greatly increased sales and profits under reduced tariff duties.

Present and foreseeable facts warrant complete removal of duty and maximum reduction now possible should therefore be made.

For all the foregoing reasons it is respectfully requested that the existing tariff duty of 1½¢ per pound on aluminum and alloys in crude form, covered by Paragraph 374, Tariff Act of 1930, as amended, be reduced to 1¼¢ per pound.

Respectfully submitted,

ALUMINIUM LIMITED SALES, INC.,
630 Fifth Avenue,
New York 20, New York.

By: WARD VAN ALSTYNE, President

October 14, 1955.

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:
CITY OF NEW YORK }

I, WARD VAN ALSTYNE, being duly sworn, depose and say that I am President of Aluminium Limited Sales, Inc., and am authorized by said company to sign the foregoing memorandum on its behalf.

The facts therein stated are true to the best of my knowledge, information and belief.

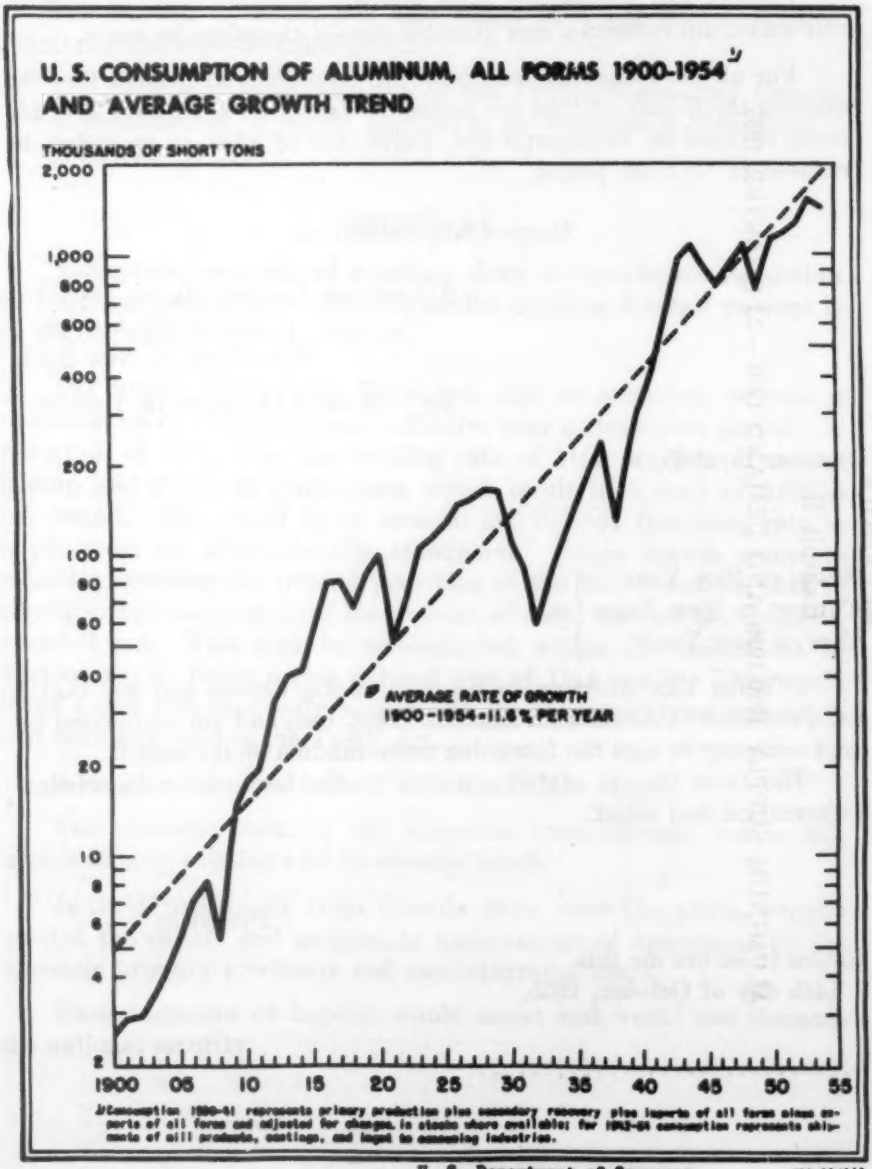
.....
President

Sworn to before me this
14th day of October, 1955.

.....

APPENDIX

EXHIBIT A


U. S. CONSUMPTION OF ALUMINUM, ALL FORMS 1900-1954 1/
AND AVERAGE GROWTH TREND
THOUSANDS OF SHORT TONS
2,000
1,000
800
600
400
200
100
80
60
40
20
10
8
6
4
2
AVERAGE RATE OF GROWTH
1900-1954=11.6 % PER YEAR
1900 05 10 15 20 25 30 35 40 45 50 55
1/Consumption 1900-41 represents primary production plus secondary recovery plus imports of all forms minus exports of all forms and adjusted for changes in stocks where available; for 1942-54 consumption represents shipments of mill products, castings, and ingot to consuming industries.
U. S. Department of Commerce
Aluminum & Magnesium Division, BDSA

APPENDIX

Exhibit B.

ALUMINUM SUPPLY 1950-1956 AND DEMAND 1950—2d QUARTER 1955

(Millions of Pounds)

	Sources of Supply									Shipments to Consumers		
		Primary Imports			Domestic Secondary Recovery[1]							
	Domestic Primary Production	Total	Canada	Other	Total	From New Scrap	From Old Scrap	Recovery From Imported Scrap	Total Sources of Supply	[2] Total	[3] Direct Military	Civilian and Indirect Military
1950	1,437	354	311	43	487	334	153	122	2,400	2,391	113	2,278
1951	1,674	245	211	34	585	432	153	36	2,540	2,421	622	1,799
1952	1,875	256	232	24	609	466	143	13	2,753	2,662	793	1,869
1953	2,504	602	448	154	737	579	158	48	3,891	3,211	742	2,469
1st Qtr.	574	178	143	35	176	134	42	9	937	838	207	631
2nd Qtr.	624	105	79	26	205	160	45	17	951	875	200	675
3rd Qtr.	658	192	120	72	181	143	38	13	1,044	791	182	609
4th Qtr.	648	127	106	21	175	142	33	9	959	707	153	554
1954	2,921	440[4]	393	37	653	515	138	18[4]	4,032	3,010	356	2,654
1st Qtr.	698	132	121	11	165	133	32	4	999	688	105	583
2nd Qtr.	733	122	111	11	164	127	37	4	1,023	751	87	664
3rd Qtr.	743	110	96	14	152	118	34	3	1,008	739	80	659
4th Qtr.	747	76	75	1	172	137	35	7	1,002	832	84	748
1955[5]	3,074	470[4]	451	19	786	617	169	25[4]	4,355			
1st Qtr.	749	82	78	4	192	146	46	6	1,029	939	80	859
2nd Qtr.	770	132	127	5	191	148	43	9	1,102	1,008	85	923
3rd Qtr.	788	128	123	5	190	150	40	5	1,111			
4th Qtr.	767	128	123	5	213	173	40	5	1,113			
1956[5]	3,206	596	566	30	880	720	160	20	4,702			

See: Reference notes on next page.

NOTES: Aluminum Supply 1950-1956 and Demand 1950—Second Quarter 1955.

[1] Data for past periods are as estimated by the Bureau of Mines from reports of scrap consumed by consumers of scrap; these reports do not apparently include most of the imported scrap and so scrap imports have been included in the table at 90 percent of the amounts reported by the Bureau of the Census. Total domestic recovery as reported by Bureau of Mines for 1954 and January-May 1955 are based on preliminary incomplete reports, and the figures in the table have been calculated by increasing the Bureau of Mines figures to allow for missing reports.

New scrap recovery for the last half of 1955 and the year 1956 represents ingot equivalent of scrap expected to be available, both for domestic use and exports, and is estimated on the basis of expectation of an annual average 20% of recovery from shipments of mill shapes and castings, assuming 6 months between such shipments and scrap recovery.

[2] Stockpile shipments are not included. The difference between "total sources of supply" and "total shipments to consumers" may be accounted for by a number of factors in addition to stockpile shipments, e.g. increase in inventories, metal losses in melting and fabrication, inclusion in secondary recovery of some "run-around" scrap in the system, etc. On the other hand, secondary recovery may be entered at too low a figure for some years because of incomplete coverage; minor amounts of imports of mill products are included in shipments but not in sources of supply; and in some years inventories declined.

[3] Some military shipments in 1954 and the First Half 1955 were probably not reported as such but appear as civilian shipments.

[4] Some imports classified by the Bureau of the Census as scrap have here been classified as primary metal.

[5] Estimated; it is assumed that reactivated units at Badin and Massena will suspend operations in late 1955, that Anaconda will begin capacity production in January 1956, and that three new lines at Rockdale and Pt. Comfort will begin operations in early 1956.

U. S. Department of Commerce
Business and Defense Services Administration
Aluminum and Magnesium Division
August 19, 1955

BEFORE THE

UNITED STATES TARIFF COMMISSION

AND

COMMITTEE FOR RECIPROCITY INFORMATION

IN THE MATTER *of* PROPOSED NEGOTIATIONS UNDER THE TRADE AGREEMENTS ACT OF 1934, as amended and extended.	Aluminum and Aluminum Alloys, in crude form, Paragraph 374, Tariff Act of 1930

SUPPLEMENTAL MEMORANDUM OF ALUMINIUM LIMITED SALES, INC., NEW YORK, NEW YORK, IN SUPPORT OF MAXIMUM POSSIBLE REDUCTION IN EXISTING TARIFF DUTY

BEFORE THE

UNITED STATES TARIFF COMMISSION

AND

COMMITTEE FOR RECIPROCITY INFORMATION

IN THE MATTER *of* PROPOSED NEGOTIATIONS UNDER THE TRADE AGREEMENTS ACT OF 1934, as amended and extended.	Aluminum and Aluminum Alloys, in crude form, Paragraph 374, Tariff Act of 1930

SUPPLEMENTAL MEMORANDUM OF ALUMINIUM LIMITED SALES, INC., NEW YORK, NEW YORK, IN SUPPORT OF MAXIMUM POSSIBLE REDUCTION IN EXISTING TARIFF DUTY

Aluminium Limited Sales, Inc., the United States distributor of aluminum produced by the Aluminum Company of Canada Ltd. (Alcan) has filed a memorandum, including detailed statistical and factual data, in support of its request for the maximum reduction in the present tariff duty on aluminum in crude form.

Opposition to such request has been registered by certain domestic producers based upon allegations

1—that there exists an equilibrium in the relationship of supply and demand for primary aluminum which a further reduction in duty might upset;

2—that reliance on Canada as the principal import supplier is uncertain and unstable because Alcan's first concern is its other export markets and it ships to the United States only when such markets have been satisfied;

3—that reduction in duty would discourage further expansion of the domestic industry and hence, impair the national security; and finally,

4—that a reduction in duty would not increase import supplies or lower the price, but would benefit only Aluminium Ltd. in Canada and its American stockholders.

Significantly, so far as known, no one has asserted that the reduction in tariff duty on aluminum in crude form under the present law would result in serious injury or threat of serious injury to the operations of the American primary aluminum industry.

The allegations thus far advanced, as above outlined, have no basis in fact or logic. Each is briefly discussed hereinafter.

The distinction between primary aluminum and products fabricated from primary aluminum is, of course, clear. While the domestic manufacturers of primary aluminum also produce and manufacture aluminum in many and diverse forms, the two products, primary and fabricated, represent totally different and distinct problems. The only relevance of the fabricated aluminum industry to the question of the tariff duty on primary aluminum lies in the importance to fabricators of encouraging a maintainance and increase of the supply of the crude material, primary aluminum.

Allegation That There Exists An Equilibrium In The Relationship Of Supply And Demand For Primary Aluminum Which A Further Reduction In Duty Might Upset

Just what is meant by "equilibrium" in this sense is not known. The fact is that there are many non-integrated users which are, as evidenced by their statements filed in this proceeding, unable to get all the metal they require. This imbalance of supply of the primary product has not been alleviated by the great expansion of primary production in the United States. Along with such expansion has proceeded, at the same time, a commensurate, if not greater, increase in the production facilities for manufacture of the myriad fabricated products made from aluminum.

Each of the domestic producers of primary aluminum is, itself, a fabricator and such overall fabricating facilities exceed the entire

capacity for production of the primary product. As one result, two of the largest domestic producers who have carried forward large expansion programs in both primary and fabricated products have found it necessary to supplement their own inadequate output of primary by imports. Non-integrated users of primary aluminum, i.e., manufacturers who fabricate aluminum products but do not produce primary aluminum, have found it increasingly difficult to obtain necessary supplies of the primary product. Imports from Canada helped to meet this need. Had it not been for such imports, the important and rapidly growing independent aluminum fabricating industry would have been and would continue to be seriously handicapped.

Fabricating operations require many times the man-power required in the production of aluminum in crude form. One of the domestic manufacturers in a statement filed herein has estimated total employment in the aluminum industry, including fabricating, at hundreds of thousands of workers. The best estimate available of the workers employed in the production of aluminum in crude form is under 15,000.

Opposition to any reduction in tariff ignores not only the present needs of the domestic non-integrated industry, but equally important, ignores encouragement to development of new uses and new concerns which can only be effected by a more ample supply of aluminum in crude form. Domestic producers of aluminum in crude form, being fully integrated, are interested primarily in supplying their own fabricating mills. Such producers have not been, and cannot in the future, be a non-competitive source of supply to the independent non-integrated industry.

Statements from within and without the aluminum industry indicate that the consumption of aluminum will continue to expand. To the extent that a reduction in duty will encourage an increase in imports, the constantly growing operating needs of the domestic fabricating industry will be aided and safeguarded.

Allegation That Reliance On Canada As the Principal Import Supplier Is Uncertain And Unstable Because Alcan's First Concern Is Its Other Export Markets And It Ships To The United States Only When Such Markets Have Been Satisfied

This basis of objection to a reduction in duty is completely untrue. Data has already been filed establishing that among the principal markets for primary aluminum produced in Canada, the United States has received the largest increase in shipments since 1949. Such data also establish that in 1955 sales of primary aluminum from Canada to the United States will be almost three times the quantity sold in 1949. Utilization of additional capacity created in Canada as a result of world-wide insistent demand will make possible a further increase in shipments to the United States in the year 1956 and thereafter.

Sales of Canadian aluminum in the United States are primarily made up of long-term commitments, some of which run beyond 1960. In addition to contracts with three of the four domestic producers running through 1958, the company established in 1953 a firm commitment to supply not less than 110,000 tons a year to United States non-integrated users. The amount so reserved for non-integrated users was greater than the amount that had ever previously been sold to them by the company.

Alcan has other established markets overseas, all of which are receiving only a portion of their requirements under present conditions. These markets, except the United Kingdom, are receiving a smaller percentage of the total supply of Canadian production as compared to 1949. In 1939 the United Kingdom granted loans to Alcan in return for which the company agreed to give first call on a limited portion of its annual production.

Public statements by Alcan have repeatedly emphasized the importance of the United States among its markets. In 1956, present commitments call for shipment to the United States of not less than 290,000 tons, which will make the United States the largest single market for Canadian aluminum.

Allegation That Reduction In Duty Would Discourage Further Expansion Of The Domestic Industry And Hence, Impair The National Security

The national security interests of the United States are completely safeguarded at present, as established by the recent announcement of the Office of Defense Mobilization that its defense goal for primary aluminum capacity has been reached. Protection of future national security interests seems equally assured by the continuing expansion of the domestic industry.

It has been stated that there has been a "ten times" expansion in the production of aluminum in the United States in recent years. It has also been pointed out that this expansion took place during a period when the rate of duty on primary aluminum was being progressively reduced from 4¢ per pound to 1½¢ per pound. That great expansion continues.

In November, 1955, in announcing new all-time record operations and profits for the first 9 months of 1955, the Reynolds Company also announced that it had started construction on an 11 million dollar expansion program at its Alabama primary aluminum plant slated to boost annual production by 40 million pounds. The project, part of a recently announced company-wide 230 million dollar capital improvement program, is scheduled for completion by July or August, 1956.

The Aluminum Company of America reports for the first 9 months of 1955 new record operations and net profits. That company has under way an expansion program which includes a 91,000 ton increase in ingot capacity and in sheet and foil facilities.

In reporting the result of operations for the first nine months of 1955, Mr. Henry J. Kaiser, Chairman of the Kaiser Aluminum & Chemical Corp., is quoted as informing the company stockholders that all key facilities were "running at or above rated capacity and based on the strong aluminum market, there is every indication that the high rate of production will continue for the foreseeable months ahead." Mr. Kaiser is further quoted as reporting that all schedules

for the 90 million dollar expansion at the company's new sheet and foil fabricating mill (capacity 166,000 tons) under construction in West Virginia had been moved up more than a year ahead of the original time table, and were expected to be in operation by early 1957. The Kaiser Company also has announced plans for addition of 90,000 tons capacity to its smelter facilities.

On Wednesday, November 9th, the Olin Mathieson Chemical Corp. announced that it was proceeding with plans to build an aluminum plant in Ohio. The press reports that the company's plans call for facilities to produce 60,000 tons of primary aluminum a year—that the facilities will consist of a reduction mill, alumina plants and rolling mill, and that output will be used mainly to supply the company with its sheet aluminum needs.

It is clear from the foregoing that expansion in the primary aluminum production in the United States is continuing unabated. It is equally clear that a large part if not substantially all, of the increased quantities of primary aluminum resulting therefrom may be required in the producer's own fabricating operations.

Capacity for production of primary aluminum has expanded greatly during the recent period of progressive tariff lowering and further great expansion far in excess of present officially established security needs is underway. It seems idle to suggest that the tremendous forward progress of this dynamic industry will be interfered with to any degree by further reduction or indeed, complete removal, of the present duty. Past history and all available indications are to the contrary. Reduction in duties will encourage imports and thus aid further growth and progress of the domestic industry.

Allegation That A Reduction In Duty Would Not Increase Import Supplies Or Lower The Price, But Would Benefit Only Aluminium Ltd. In Canada And Its American Stockholders

Over the years, encouraged by reductions in United States tariff duty, shipments of primary aluminum from Canada have constantly increased. In 1954, Alcan shipped to the United States more than

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one-third of its total shipments of primary aluminum to all sources including that consumed in Canada. In 1956, estimated shipments to the United States will reach an all-time high. This is so, despite the fact that in many world markets primary aluminum sells at higher prices than in the United States. Canadian aluminum does not cater to more profitable markets at the expense of the United States—in fact, to the contrary.

Aluminium Limited Sales, Inc., in its efforts to develop a market in the United States, has sought at all times to distribute its product with the maximum possible benefit to consumers. It is true that Canadian primary aluminum has usually followed the price established by the domestic producers. Aluminum in crude form is a standard product in the trade. It finds a common use regardless of source. Like many other products, therefore, it seems but natural that it should sell at the same price regardless of source.

Allegation has been made that costs of production in Canada are considerably lower than corresponding costs in the United States. It is true that hydro-electric power is available in greater quantities and at less competition with other industrial users in Canada than in the United States. No figures are available, however, of current costs of production in the United States. The argument that there may be some advantage in favor of Canadian production appears completely irrelevant to the question at hand when it is recognized that the domestic producers have continuously expanded and prospered during a period of continuous tariff reduction.

It has been further alleged that the only result of a reduction in duty on aluminum in crude form would be loss of revenue to the United States Treasury. This seems hardly a proper subject for individual manufacturers or industries to discuss or decide. It is suggested, however, that instead of a net reduction in revenue resulting, the reverse may well occur through an increase in the volume of such imports. Whether or not that be true, however, it is certainly pertinent that aluminum is important to the economy of Canada and that the dollars gained from sale of aluminum to the United States form an important source of United States dollar currency to Canada. To the extent, therefore, that an increase in imports may be encour-

aged by reduction of duty, the existing large unfavorable trade balance between the United States and Canada may be reduced or narrowed and the Canadian market for products of the United States be expanded.

Furthermore, to the extent that the supply of aluminum in crude form in the United States is increased through imports, the operations of the domestic fabricators will be expanded, thus enlarging the economy and the opportunity for increased tax revenue. If, as has been alleged, the only gain resulting from reduction in duty, which is denied, would be to enrich the American stockholders of Aluminium Ltd., it cannot be denied that increased income to these stockholders would increase the amount of money available in the United States for payment of taxes and for purchase of other commodities.

The conclusion seems inescapable that even the limited possible present reduction in duty on aluminum in crude form would directly serve the underlying purpose of the trade agreements statute to expand markets for products of the United States by regulating admission of foreign goods into the United States in accordance with the characteristics and needs of various branches of American production.

No substantial reason exists against the maximum possible limited reduction in existing tariff duty on aluminum. Every reason exists in favor of that action.

Respectfully submitted,

ALUMINIUM LIMITED SALES, INC.,
630 Fifth Avenue,
New York 20, New York.

By: WARD VAN ALSTYNE, President.

November 16, 1955.

STATE OF NEW YORK
COUNTY OF NEW YORK } ss.:
CITY OF NEW YORK

I, WARD VAN ALSTYNE, being duly sworn, depose and say that I am President of Aluminium Limited Sales, Inc., and am authorized by said company to sign the foregoing memorandum on its behalf.

The facts therein stated are true to the best of my knowledge, information and belief.

.....
President

Sworn to before me this
day of November, 1955.

.....

(2) STATEMENT OF ALUMINUM COMPANY OF AMERICA TO THE COMMITTEE FOR RECIPROCITY INFORMATION, OCTOBER 24, 1955

In Re Notice of Intention of the United States of America To Participate in Trade Agreement Negotiations With Foreign Governments Which Are Parties to the General Agreement on Tariffs and Trade, as to Tariff Concessions by the United States of America Affecting Products Covered by the Tariff Act of 1930, as Amended, Paragraphs 316 (a), 339, 374, 382 (a), 390 and 397

The above captioned sections of the Tariff Act of 1930, as amended, cover crude aluminum and a variety of aluminum products substantially identical with the products manufactured by Aluminum Company of America (herinafter, Alcoa). Alcoa respectfully submits that none of the captioned existing tariff duties, restrictions or other controls should be modified at this time.

Maintenance of the present tariff structure on crude aluminum and aluminum products is believed desirable for several reasons:

(1) A strong and financially sound domestic aluminum industry is vital to the national defense and the Nation's economy;

(2) The constant entry of aluminum into new markets should be protected until those markets have been built up by domestic manufacturers; and

(3) No foreign producer or manufacturer should be enriched at the expense of the United States Treasury or the United States consumer.

The distinction between primary and fabricated aluminum

For purposes of this statement, primary aluminum is aluminum in pig or ingot form, or "crude" aluminum as specified in paragraph 374 of the act. Aluminum fabricated products are all other products covered by the captioned tariff regulations.

The tariff on fabricated products

Primary aluminum's value to the national economy arises from the thousands of products fabricated from it. Fabricated products are, therefore, the backbone of the industry. While there are four domestic smelters of primary aluminum, there are hundreds of other manufacturers of aluminum products whose markets are subject to foreign competition.

We shall not burden this committee with statistics on wage rates, manufacturing costs and production in other countries that are parties to the General Agreement on Tariffs and Trade. It is beyond controversy that most other countries with an aluminum industry of any size are capable of producing and fabricating aluminum at substantially lower costs than are possible in this country. Labor rates alone compel such a conclusion. The fact that very substantial imports of primary aluminum and aluminum fabrications reach this country, despite present tariff levies and freight costs, further corroborates this observation.

The tariff on fabricated products is vital not only to the integrated domestic companies but to the host of smaller firms producing aluminum products.

Sheet and plate.—Aluminum sheet and plate in various specifications constitute the largest portion of aluminum fabrication. Both are directly essential to the national defense for myriad military uses. It is important enough that the United States Government still offers incentives for the construction of sheet-producing facilities. Rapid amortization for tax purposes of 75 percent of a substantial portion of the cost of a new sheet mill being built in West Virginia has been authorized recently by the Office of Defense Mobilization. In addition, the United States Government has purchased recently various sheet and plate facilities which have been leased to domestic firms for purposes of national defense operation. To have the advantage of operating experience, the Government encourages use of the facilities on civilian orders. A sudden upsurge in sheet or plate imports could have the effect of slowing the rate of use of these strategically important facilities. In this connection, extensive use of newer equipment is necessary to train personnel and determine capabilities for emergency production.

Domestic investors have risked millions of dollars in developing and promoting new uses for aluminum sheet. Some recent uses include outside aluminum skins for buildings, welded lightweight tubing and piping, packaging and many others. Until new markets for these products have been fully established, foreign competition could easily stunt or stifle development. Large and vital expenditures for research and development logically would have to be curtailed if domestic markets were to be captured to any significant extent by imports.

Extrusions.—The story on aluminum extrusions is strikingly similar to that of sheet, except that the extrusion market may be more vulnerable to foreign com-

petition. Capital required to enter the extrusion business is relatively small. As a result, the domestic extrusion industry has grown at an astounding rate of speed. Today there are about 110 extruders of aluminum compared with 6 in 1942. The smallness of most of these firms suggests that tariff protection will be necessary for some years to come.

Extruded aluminum constantly enters new markets because of the intricate and precise shapes possible and protection is certainly needed until the new markets are thoroughly established and development costs recovered.

The Department of Defense relies heavily on aluminum extrusions for aircraft assembly and other uses. To assure modern productive facilities for extrusions, the Government has purchased and leased to domestic extruders expensive extrusion presses. To promote better technical knowledge of larger and heavier extrusions, the Government has encouraged civilian, as well as military, production on the presses it has purchased and leased. Since some of the largest extrusion presses in use in this country are of foreign make and design, the inference is clear that foreign competition could readily dry up what civilian market there is for the production of the larger presses.

Forgings.—Most applications, tonnagewise, for aluminum forgings are in the military field, and while foreign forgings could be cheaper, the supply of imports could easily dry up in case of emergency. There is a question as to whether foreseeable civilian business in forgings is sufficient to justify the heavy capital costs of forging facilities, particularly if there is danger of foreign competition. Yet, since forgings are vital to aircraft production and other defense uses, such facilities must be ready for emergency production. In this example, also, the Government has invested in forging facilities and encourages civilian production for the resultant technological knowledge and to help defray the expense of such facilities.

As research is able to develop civilian uses, such as automotive wheels, those markets for forgings should be protected until well established.

Other fabrications.—A review of each category of aluminum products would show a situation with many of the elements contained in the examples of sheet and plate, extrusions and forgings cited above.

Because (*a*) the aluminum industry is vital to defense; (*b*) aluminum continues its historical pattern of invading new markets; and (*c*) foreign fabricators commonly sell at substantially below the domestic price, the present tariff structure should be left alone.

Primary aluminum

Alcoa is the largest domestic purchaser of imported primary aluminum. If Alcoa believed that a reduction in the tariff on aluminum pig and ingot would benefit the Nation's aluminum consumers, no question would be raised to a tariff reduction. Past experience, however, does not show that there would be any benefit from such a move. The Government would simply lose the revenue it now realizes in imports since imported primary aluminum is sold at the prevailing market price in this country. From this the presumption is strong that foreign producers are able to compete despite the 1.5-cent-per-pound tariff and freight costs.

There seems to be no relationship between the duty on aluminum and the trend of imports, as shown in the following table:

Primary aluminum imports and tariffs

Year	Imports, in short tons	Tariff at end of period	Year	Imports, in short tons	Tariff at end of period
		Cents			*Cents*
1946	41,484	3.0	1951	122,422	1.5
1947	15,579	3.0	1952	128,233	1.5
1948	83,164	2.0	1953	300,928	1.5
1949	77,342	2.0	1954	215,250	1.5
1950	176,778	2.0	1955 (6 months)	99,994	1.5

Note that figures for the first 6 months of 1955 indicate annual imports of only about one-half the 1954 figure and around one-third of the 1953 figure. The reason for this situation lies in the world market picture. Foreign producers are selling in the world markets when that market is strong; and in this country when, and to the extent that foreign markets cannot absorb their output. Domestic

firms, therefore, have an unstable foreign supply. In short, this trend makes it appear that the United States market for foreign aluminum is one of convenience. The metal will be shipped here and disposed of only when the world market justifies that action.

Presently the foreign market is so strong that at least one other nation, feeling an aluminum pinch, has successfully appealed to the United States Department of State for additional supplies from the United States and some such relief has been arranged.

The implication of the preceding table clearly raises the question in the minds of domestic producers whether the United States is to be a dumping ground for international aluminum if the world market suffers a setback.

After due consideration of the foregoing, with the full knowledge that world trade is essential to world peace, Alcoa repsectfully submits that the present situation requires a continuation of the current level of tariffs on aluminum and aluminum products.

Respectfully submitted.

ALUMINUM COMPANY OF AMERICA,
By D. WILMOT, *Vice President.*

COMMONWEALTH OF PENNSYLVANIA,
County of Allegheny, ss:

On this 24th day of October 1955, before me, the undersigned authority, a notary public in and for the commonwealth and county aforesaid, personally appeared D. Wilmot, who, being by me first duly sworn according to law, did depose and say that the averments of fact set forth in the foregoing statement are true to the best of the knowledge and belief of the affiant.

D. WILMOT.

Sworn to and subscribed before me the day and year first above written.

FLORENCE L. ROSS,
Notary Public.

My commission expires February 2, 1957.

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(3) STATEMENT OF KAISER ALUMINUM & CHEMICAL CORP., OCTOBER 17, 1955

BEFORE THE COMMITTEE FOR RECIPROCITY INFORMATION

Paragraph 374, Aluminum Pig and Ingot and Other Aluminum Products

SUMMARY

1. The present 1½ cent tariff on aluminum pig and ingot and on aluminum products is the irreducible minimum necessary to offset the superior cost advantages of foreign production over domestic production. This 1½ cent differential has produced a desirable equilibrium under which United States imports of aluminum are running at maximum levels and both the domestic and foreign aluminum industries continue to expand. This equilibrium should not be disturbed by a further tariff reduction.

2. A further reduction would not increase the trade of other countries with the United States, and therefore would not increase the domestic supply of aluminum.

3. A further reduction would not lower the domestic price of aluminum.

4. A further reduction may discourage private capital from financing additional expansion of the United States industry.

5. A further reduction would serve only as a cash subsidy to Aluminium, Ltd., the Canadian company which now accounts for practically all United States aluminum imports. Since this company is largely American-owned, the result would be to subsidize the American stockholders of one aluminum producer at the expense of the stockholders of the other American producers and all American taxpayers.

(1) *The present 1½-cent tariff is the irreducible minimum necessary to offset the superior cost advantages of foreign production over domestic production. This 1½-cent differential has produced a desirable equilibrium under which United States imports of aluminum are running at maximum levels and both the domestic and foreign aluminum industries continue to expand. This equilibrium should not be disturbed by a further tariff reduction*

Under the Tariff Act of 1930 the rate on aluminum pig and ingot was 4 cents per pound.

Under a trade agreement with Canada in 1939, the rate was reduced to 3 cents per pound.

Under the General Agreement on Tariffs and Trade, effective in 1948, the rate was reduced to 2 cents per pound.

Under a trade agreement with Canada in 1951, the rate was reduced to 1½ cents per pound.

The principal foreign source of aluminum pig and ingot for the United States market is Canada. Canada accounts for approximately 90 percent of this country's aluminum imports of pig and ingot. The cost of producing aluminum in Canada has been, and will probably continue to be, lower than the cost of production in the United States. In 1952 the President's Materials Policy Commission concluded that the Canadian cost advantage was probably in the range of 3 to 4 cents per pound.[1] For future expansion, the Canadian cost advantage will probably be even greater, because there is relatively little competing demand for Canada's ample resources of hydroelectric power as compared to the competing demands for power in the United States.

As the result of the reductions in the aluminum tariff to date, Canadian production sold in the United States market already has a considerable cost advantage over United States production. Nevertheless, because of the widespread demand for aluminum in the United States and throughout the world, both the United States industry and the Canadian industry have been able to expand their productive facilities rapidly under the 1½ cents tariff. The Canadian industry is now shipping aluminum pig and ingot to the United States at a rate exceeding 400 million pounds per year, over 4 times the rate in 1951. Over the same period, the Canadian company has increased its capacity by more than 50 percent. For this purpose, it has raised hundreds of millions of dollars of private capital.

At the same time, the American industry has been able to expand its own facilities to a comparable degree, and has been operating at maximum levels.

It thus appears that since the 1½-cent rate became effective in 1951 both the foreign aluminum industry and the domestic aluminum industry have been healthy. Both the foreign and domestic industries are able to expand and obtain capital for that purpose. Foreign shipments of aluminum to the United States have risen to record levels. As shown in greater detail below, the present 1½-cent tariff is not limiting the rate of foreign shipments to the United States. An equilibrium between the foreign and domestic industries has been achieved in a way that fully serves all of the purposes of the reciprocal trade program, and at the same time permits a healthy domestic industry to flourish.

Since this desirable condition has been achieved, nothing should be done that might upset the present equilibrium. Because of the decisive cost advantage which Canadian production enjoys over United States production, a further reduction of the aluminum tariff might seriously discourage further expansion of the United States industry, without producing any comparable benefit in the field of trade between the United States and other countries. The present 1½-cent tariff should be regarded as the irreducible minimum necessary to maintain a healthy equilibrium under which both the domestic and foreign aluminum industries can continue their present rate of expansion.

In fact, the present 1½-cent tariff may itself have given too great an advantage to the Canadian industry under any conditions except the present conditions of maximum aluminum demand in excess of the worldwide capacity to produce. A future shift in the supply-demand relationship may make it necessary to increase the present 1½-cent tariff to preserve a healthy domestic aluminum industry. But in any event, nothing should be done to lower the tariff further at this time.

(2) *A further reduction would not increase the trade of other countries with the United States, and therefore would not increase the domestic supply of aluminum*

As shown above, Canada is the source of virtually all United States aluminum imports. Canada's production costs are lower than those of the United States. The present 1½ cent duty is too low in relation to the market price to serve as any

[1] Resources for Freedom, vol. II, p. 71.

kind of barrier to the entry of foreign aluminum. The present duty is now 6.7 percent of the market price of 22½ cents per pound. In 1945, the duty of 3 cents per pound was 21.5 percent of the market price of 14 cents per pound.

It is clear that a further reduction in tariff will not induce Canada to increase its shipments of aluminum to the United States. The Canadian producer, Aluminium, Ltd., is operating at maximum levels, as are the United States producers. At the present time the United States demand for aluminum is at peak levels and the United States is importing all the prime aluminum that foreign sources are able to ship.

The best proof that the present duty has no effect on the level of imports may be seen in the wide variations in annual United States imports of aluminum before and after the present tariff level was fixed in 1951. Since 1950 the level of imports has varied as follows: [2]

[In tons]

	Worldwide	Canadian only
1950	176,778	160,801
1951	122,422	105,479
1952	128,233	116,507
1953	300,928	233,468
1954	215,250	198,480

In 1950, the tariff was 2 cents per pound. In 1951 and 1952, despite a 25 percent drop in the tariff to 1½ cents per pound, United States aluminum imports fell off sharply. In 1953, though the tariff remained constant, imports increased by over 100 percent. In 1954, with no change in tariff, imports fell off more than 25 percent. In 1955, the rate of imports has again increased.

It thus appears that the annual rate of imports varies in response to worldwide market conditions, and that when conditions favor additional shipments to the United States, the present 1½ cent tariff is no obstacle to such additional shipments.

(3) *A further reduction would not lower the domestic price of aluminum*

Aluminium, Ltd., accounts for approximately 90 percent of all United States aluminum imports. It is the stated policy of this company to sell aluminum at the prevailing market price in the United States. Aluminium, Ltd., has entered into long-term contracts with a number of United States buyers, specifically providing that if the United States duty on aluminum increases and neither party is willing to bear the increase, the contract may be canceled. Under these contracts, if the tariff on aluminum is reduced, the price to the United States buyer remains the same and Aluminium, Ltd., pockets the difference.

Aluminium's intention to continue this policy was recently confirmed by its own board chairman, Mr. Nathaniel Davis, president of Aluminium, Ltd., in testimony before a congressional committee. (House Select Committee to Conduct a Study and Investigation of the Problems of Small Business, Subcommittee No. 3, May 19, 1955; Tr. p. 366.)

(4) *A further reduction may discourage private capital from financing additional expansion of the United States industry*

Aluminum is a strategic material essential to the national defense and welfare. World War II and the Korean struggle demonstrated that our dependence on foreign aluminum should be reduced to the absolute minimum, both because foreign production is more vulnerable to attack and because we have no control over the manner in which foreign production is allocated. Thus, in World War II, the German submarine campaign against bauxite ships in the Caribbean and in the Atlantic seriously threatened the availability of Canadian aluminum, which depends on transporting bauxite over a much longer and more exposed sea lane than is true for American production and during the Korean emergency, when our military demands for aluminum rose sharply, our imports from Canada actually fell off from pre-Korea levels, because it was necessary for Canada to meet pressing demands from other countries.

Experience has thus shown that the interests of national defense are best served by a vigorous self-sufficient domestic aluminum industry capable of supplying the bulk of our aluminum requirements. This need was officially recognized in the

[2] The figures are taken from official statistics published by the U. S. Bureau of Mines and the Dominion Bureau of Statistics.

President's Materials Policy Commission Report of June, 1952 (Resources for Freedom, vol. II, p. 65), which stated:

"But if the United States should become increasingly dependent on primary producing capacity outside its borders, serious problems of wartime security will arise."

Major costs of aluminum production are electric power, labor, and transportation. Generally speaking, foreign aluminum sites permit lower costs for these major elements than American sites. The 1½-cent duty tends to offset these advantages at least in part, and under this duty a substantial expansion of aluminum capacity has occurred within the United States, as well as abroad. Further reductions in the duty, however, may upset this equilibrium and cause even United States producers to concentrate their future expansion abroad. As the President's Materials Policy Commission has noted above, foreign sites would be extremely vulnerable in time of war. They require long ocean lines for raw materials or for the finished product. As an example, aluminum or bauxite for the new Canadian plant at Kitimat must be shipped by sea from the Caribbean area to British Colombia, and in time of war would be open to submarine attack throughout its journey.

Furthernore, it so happens that the next phase of domestic aluminum expansion, if not prevented by a further tariff reduction, would probably occur in the coal-mining areas of the Ohio Valley. Because of the increasing costs of hydroelectric power and natural gas, coal-powered aluminum reduction sites adjacent to coal mines are beginning to appear economic as compared to additional hydroelectric-powered or gas-powered plants. The coal-mining areas of the Ohio Valley are in a depressed condition and have a substantial labor surplus. A further domestic expansion of the aluminum industry in this region would thus have special advantages for the overall health of the national economy.

(5) *A further reduction would serve only as a cash subsidy to Aluminium, Ltd., the Canadian company which now accounts for practically all United States aluminum imports. Since this company is largely American-owned, the result would be to subsidize the American stockholders of one aluminum producer at the expense of the stockholders of the other American producers and all American taxpayers*

As shown above, Aluminium, Ltd., has publicly announced that if the tariff on aluminum is reduced, its price on sales to United States customers will remain the same. The amount of the tariff reduction will be lost to the United States Treasury. The company's shipments to the United States in 1955 are running at the rate of over £400 million per year. A 5 percent reduction in the present tariff (a reduction of 0.075 cent per pound) will cost the United States Treasury $300,000 per year.

This will be nothing less than a $300,000 a year subsidy to the Canadian company. The company's earnings and net worth are of the highest levels in its history. Its economic strength and ability to raise capital are equal to those of any American aluminum company. It needs no subsidy.

Furthermore, since 75 percent of the Canadian company is owned by United States investors, the subsidy would really benefit one group of United States aluminum investors at the expense of all other United States aluminum investors, the United States Treasury, and all American taxpayers.

Finally, as shown above, the subsidy would accomplish no useful purpose. It would not increase the trade of other countries with the United States in aluminum. It would not increase the domestic supply. It would not lower the domestic price of aluminum. It would not accomplish any of the objectives of the Trade Agreements Act. It would simply provide a cash windfall for the American and other investors in the Canadian company, and would tend to discourage all American investors from financing a further expansion of the domestic aluminum industry.

KAISER ALUMINUM & CHEMICAL CORP.,
CHAD F. CALHOUN, *Vice President.*

(4) STATEMENT OF REYNOLDS METALS COMPANY, PROTESTING ANY FURTHER REDUCTION OF THE IMPORT DUTIES ON PRIMARY ALUMINUM AND ITS PRODUCTS

Before the United States Tariff Commission

Before the Committee for Reciprocity Information

STATEMENT

Re:

Schedule 3.

Paragraph 374. Aluminum, and alloys (except those provided for in paragraph 302, Tariff Act of 1930) in which aluminum is the component material of chief value, in crude form (not including aluminum scrap), or in coils, plates, sheets, bars, rods, circles, disks, blanks, strips, rectangles, or squares.

Paragraph 382 (a). Aluminum foil less than 6/1000 of one inch in thickness; aluminum bronze powder and powdered foil.

Paragraph 397. In so far as it relates to aluminum.

Reynolds Metals Company protests any further reduction of the import duties on primary aluminum and its products.

American industry and the American public rely much more on primary aluminum and its products than ever before. *More than ten times as much aluminum is being used now as before World War II.* This remarkable growth of aluminum's importance makes it most essential to evaluate anew the possible effect of lower duties on the national economy.

1. THE GOVERNMENT'S INTEREST IN AN EXPANDING DOMESTIC ALUMINUM INDUSTRY

As a result of concessions made by the United States at the Torquay conference of the General Agreement on Tariffs & Trade, the import duties on primary and fabricated aluminum were further reduced. Since then, as a result of the Korean War crisis in the middle of 1950, the United States Government requested the primary producers to expand the aluminum industry in the U. S. from 725,000 tons to the 1,533,000 tons of capacity now in full operation. This increase in capacity of 114% required an investment of more than a billion dollars in private funds.

This unprecedented expansion of the aluminum industry was made at the urgent request of the Government for defense purposes. Although actual military consumption is relatively low at present, the national security still requires the industry's full capacity in the event of mobilization. Aluminum today is also recognized as an important basic metal, directly employing hundreds of thousands of employees. The investment of those engaged in the production and fabrication of aluminum is estimated to run well over three billion dollars.

As a result of the Government's request in the Fall of 1950, that more aluminum capacity should be provided for defense, the then three primary producers, in order to finance that part of the Government's program allotted to them were compelled to borrow the enormous sum of more than three-quarters of a billion dollars. In view of the foregoing, it is not only appropriate, but necessary that a *new appraisal* be made of the present aluminum situation.

Little or no aluminum is being imported into the U. S. today in the form of pig or ingot except from Canada. A very substantial quantity is coming in from that country, however, where pig and ingot are produced at the lowest cost in the Western Hemisphere, if not in the world—both power and labor costs in the production of aluminum in Canada as well as taxes heing far less than those in the U. S. The Canadians are not stockpiling any aluminum for their own defense needs nor for the defense of North America. All the aluminum that is stockpiled for the defense of Canada, the U. S., the rest of North America and, in fact, all of the Western Hemisphere, is at the expense of the U. S. Government and *comes entirely from U. S. producers.*

2. CHANGE IN IMPORT DUTY WOULD BE PREMATURE AT THIS TIME

The duties on primary and fabricated aluminum have been drastically reduced from the rates prescribed in the Tariff Act of 1930 as follows:

	From	To
Primary aluminum	4¢	1½¢
Semi-fabricated aluminum	7¢	3¢

Until the U. S. producers and fabricators can adjust themselves to a normal condition where the Government is not requiring enormous quantities of aluminum for defense and/or stockpile purposes and the law of supply and demand is again normally operating throughout the world, neither they nor the Government will know whether the duties should be increased or reduced.

Conceivably as a result of the conferences now taking place between the major powers looking toward some understanding in the furtherance of peace, the need for aluminum for defense or stockpile purposes might be either substantially reduced or substantially increased; hence, it would seem that this is not the time to experiment with tariff reductions on aluminum either in primary or semi-fabricated form.

Following the last reduction in the import duties on aluminum, the U. S. producers in 1954 had difficulty in marketing all their production, requiring them to ask the Government to purchase more of their aluminum for the stockpile than had been scheduled for that purpose by the Government. Accordingly, it would seem to be improvident at the forthcoming Geneva conference of GATT to make any reduction in the import duties on aluminum. There should be some experience with present duties under normal market conditions before any determination is made as to whether import duties should be reduced or increased.

Significantly, the same Congress that this year extended the Reciprocal Trade Act, declined to act favorably on any of a number of bills introduced to lower the import duty on aluminum by suspension thereof. Indeed, such bills were not even reported out from the Committee.

There is no appreciable or comparable exportation of U. S. produced primary aluminum into Canada such as there is from Canada into the U. S. under the existing reduced duties; hence, a reduction in the import duty on aluminum which now comes in principally from Canada, would have only the immediate effect of reducing the Treasury's income from import duties with no corresponding increase in importations, or any other compensating advantage.

3. LOWER DUTY MEANS A NET LOSS TO THE AMERICAN ECONOMY

A lower duty will benefit only one group: the foreign producers. The United States Government over a period of years would lose millions of dollars in custom revenues. None of these lost revenues would be reflected in a lower price to the domestic purchasers of the foreign aluminum. Repeatedly, with each reduction in the duty, the foreign producers have pocketed the savings. They have sold their aluminum in the United States at the prevailing prices charged by the domestic producers or at higher prices.

The aluminum industry is a growth industry; still creating new and larger markets; still planning further expansion to guarantee American industry adequate supplies for these new and larger uses. Insofar as imports do increase, they will be at the expense of domestic production, at the expense of wages which would be paid to American production workers, at the expense of their spendings in American stores, and at the expense of taxes which American producing companies would be paying to the Federal Government.

4. A LOWER DUTY JEOPARDIZES THE ALUMINUM SUPPLY OF AMERICAN INDUSTRY

As explained earlier, the ten-fold growth of aluminum markets was overwhelmingly the result of a corresponding increase in capacity and production by the domestic producers. The extraordinarily heavy capital investment required for new facilities, about $1500 per ton, *five* times as much as is needed per ton of steel capacity, makes capacity expansion dependent on the industry's ability to attract large amounts of new capital. The relatively low base price adds to the difficulty of getting the capital necessary for such capacity. A lower duty could have a dampening effect on investment capital, making it that much more difficult to finance the new capacity needed to increase the nation's regular aluminum supply.

There is real danger that a lower duty might discourage expansion without assuring the United States market of equivalent supplies, at the same price, from abroad. During recent years, it has been demonstrated over and over again that foreign aluminum will come here only *after* the higher priced overseas markets have been saturated. The United States is the "second fiddle" market of foreign producers—unless American industry is willing to offer much higher prices than it pays for domestically produced aluminum.

The experience of recent years is clear-cut evidence that domestic capacity expansion is the only assured source of added supplies. A lower duty can only

serve to hamper such expansion and thereby jeopardize the future domestic aluminum supply of American industry.

5. THE DANGER OF INCREASED DEPENDENCE ON FOREIGN SOURCES

A lower duty has one objective: to encourage *greater* use of foreign aluminum in this country. That means a *deliberate* policy of increasing our dependence on foreign sources of aluminum and discouraging self-sufficiency in this basic metal.

To seek dependence on *any* foreign source for an essential material is to invite trouble for the consuming industries using that material. There is a lesson in this country's experience with other key materials as to which there is heavy dependence on foreign countries.

The supply and price conditions in the copper, nickel and newsprint markets should be ample warning that we should never be more dependent than we have to be on any foreign source, no matter how friendly that country may be. Copper and nickel are in much tighter supply than is aluminum despite the fact that copper is *duty-free* and the duty on nickel is less than 2%. A very low duty or even no duty at all, therefore, is no cure-all for tight supply conditions.

Another serious disadvantage of dependence on foreign supplies is the impact on prices. While foreign producers are trying to attract consumers away from domestic sources to dependence on foreign sources, the low labor rates and other low production costs are often cited to imply that imports would bring prices down. That has not happened in the case of copper even though Chilean, Canadian and African copper miners get lower wages than American miners. Here is what actually happens, pricewise, when there is dependence on overseas sources:

Prices of Heavily Imported Commodities

	1939	1955
Copper	11.07¢ per lb.	43.0¢ per lb.
Nickel	35.00¢ per lb.	64.5¢ per lb.
Newsprint	$50.00 per ton	$126 per ton

In contrast, primary aluminum prices have risen as follows:

ALUMINUM	12.5%
Copper	288.4%
Nickel	84.2%
Newsprint	152.0%

A major difference between aluminum and these other commodities is the fact that American industry has not become dependent on foreign sources for a large share of its requirements.

CONCLUSION

For the foregoing reasons, Reynolds Metals Company protests any further reduction of the import duties on primary aluminum and its products.

Respectfully submitted.

JOSEPH H. MCCONNELL,
New York, New York,
WILSON W. WYATT,
Louisville, Ky.,
MAXWELL CASKIE,
Washington, D. C.,
FLETCHER P. PLUMLEY,
Washington, D. C.,
Counsel for Reynolds Metals Company.

Affidavit

The affiant, Maxwell Caskie, states that he is Assistant Vice President of the Reynolds Metals Company and that the facts set forth in the foregoing statement are true to the best of his knowledge and belief.

MAXWELL CASKIE.

DISTRICT OF COLUMBIA, *ss:*

Subscribed and sworn to before me, a Notary Public in and for the District of Columbia, by Maxwell Caskie, who is personally known to me, this 17th day of October, 1955. My commission expires August 14, 1958.

WINIFRED M. ING,
Notary Public, District of Columbia. [SEAL]

ALUMINUM INDUSTRY

Section IV. Staff paper, Aluminum and Federal Power Policy, July 6, 1948, submitted to the National Security Resources Board by the Department of the Interior in connection with recommendations for a Government-sponsored aluminum expansion program

ALUMINUM AND FEDERAL POWER POLICY

Draft Report, July 6, 1948

Prepared by S. Moment for Staff Use in the Department of the Interior

SUMMARY

1. This report recommends adoption of a power program by the private utilities· aluminum companies, and the Federal Government to permit expansion of the aluminum industry, primarily for national security. The Federal portion of this program should be sufficiently flexible to provide power for expansion of other strategic materials as soon as such needs for national security are known. The costs of the Federal investment would be recovered from the sale of power.

2. The private utilities and the aluminum industry itself should contribute as much power as they can that will meet the conditions of suitable price and little drain on the supply of scarce fuels. But is it apparent that Federal hydro should have considerable responsibility. The recent power survey made by the National Security Resources Board showed that expansion plans of all utility systems for the period 1948–51 will not take care of the aluminum needs.

3. There is a severe shortage of aluminum in 1948 because of the lack of suitable power. This shortage will increase and probably last for at least a decade unless the power problem is solved soon.

4. Other metals also have been short, but the deficiency in aluminum capacity is relatively more drastic and harmful. It injures the national security because primary capacity is now only half of the World War II peak. It is restricting the total productive capacity of the country in ways not yet appreciated and is contributing to shortages of steel, fuel oil, and other materials. At the same time the Government has no stockpile of the metal and cannot build one rapidly without hurting the civilian economy.

5. The Federal Government already sells power for 70 percent of the primary aluminum capacity through the TVA and the Department of the Interior. Further Federal action to provide power for expansion would not be a new policy. In the case of other materials important to national security, notably pretroleum and synthetic rubber, the Federal-Government also has acted because private industry unaided could not adquately protect the national interest.

6. Wartime demands for aluminum to build the air force advanced the metal from a minor position to second place behind steel in cubic volume produced. Postwar demands have kept the metal in that position, even though half of the war-built capacity was made idle, lacking power. Aluminum is expected to achieve second place in weight produced between 1960 and 1970 provided the power is available. Many of the new and extended uses are so economical that they can continue after competing materials again become abundant.

7. Aluminum promises contributions to industrial progress that may eventually save as much as 10 or 15 billion dollars annually in all economic activities of the country. The actual annual savings will be far greater than the costs of expanding the aluminum industry and building the necessary power facilities. In the event of national emergency, such economies would add materially to our industrial strength.

8. Today, primary aluminum capacity operating in this country is 625,000 short tons as compared with 1,175,000 tons in 1943. By 1950 it will increase but slightly to 700,000 tons if present plans are fulfilled. Beyond that amount, no

further expansion is now scheduled and very little appears to be possible until new power supplies are provided.

9. The aluminum shortage for peacetime needs exclusively is estimated by Alcoa at 275,000 tons in 1948, and at 375,000 tons by 1952. This would require 550,000 kilowatts of new power capacity now, and 750,000 kilowatts by 1952. By 1953 the new 70 group Air Force and related Navy Air Force will require annually about 100,000 additional tons of primary aluminum.

10. By 1960, peacetime markets for primary aluminum are estimated at between 1,700,000 and 2,700,000 tons. Based on World War II experience and current standards of the Munitions Board, the national security requires a capacity of between 1,600,000 and 2,500,000 tons and a stockpile of aluminum of the same magnitude.

11. For national security, the estimated deficiency in capacity by 1952 will be between 900,000 and 1,800,000 tons. This will require between 1,800,000 and 3,600,000 kilowatts of new power capacity. If this shortage is not met, the deficiency for peacetime requirements by 1960 may be between 1 and 2 million tons. This would require between 2 and 4 million kilowatts of new power capacity. If the aluminum industry can build up to serve peacetime markets, it will at the same time, and at its own expense, provide much of the capacity needed for security, thereby relieving the Government of corresponding costs in the event of emergency.

12. There now appear only three practical ways to obtain the power for expansion. First, Canadian power can be used to some extent by importing more Canadian metal. However, the possible volume of additional imports is limited sharply by the Canadian power supply. Large imports can be obtained only by fostering power expansion in Canada. It appears inadvisable to rely substantially upon Canada because (*a*) Canadian aluminum would not be as dependable or subject to United States control in the event of emergency, (*b*) the price to United States industry would probably be higher, at least by the amount of the tariff, and, (*c*) power can be expanded in the United States as readily as in Canada.

13. The second solution is to have the aluminum industry itself provide the power alone or in conjunction with private utilities. This should be done to the fullest extent that power can be obtained at a suitable price and with little drain on scarce fuels. Although such power would be more expensive than the most economical Federal hydro, it could be located closer to aluminum markets and be offset in some cases by economies in transportation costs. However, such power would largely use gas or oil which are already in short supply. The ultimate investment required would be very large compared with the financial resources of the aluminum industry. The private utilities could share some of the investment burden but this would not be too attractive to them because the rates that the aluminum industry can afford to pay would yield a lesser return on utility investment than the rates paid by other power users. Unless the utilities change their attitude, this method can be expected to make only a modest contribution to the problem.

14. The third and most economical solution is to build a number of Federal dams to provide the balance of the needed power. This method would economize on scarce fuels and the investment would be self-liquidating. The dams would be in addition to those now under construction because these are needed to meet other power shortages, especially for customers preferred under Federal law. This power program should be flexible enough to cover needs of other strategic materials and atomic developments as these become known.

15. It will take at least 5 or 6 years to plan and complete the necessary dams. By that time, according to the President's Air Policy Commission, other nations will have the atomic bomb and this country must then have sufficient air power and industrial power to survive if engaged in war. Therefore, in the interest of national security as well as the peacetime economy as a whole, this power program should be launched in the very near future.

16. It is recommended that the Federal agencies concerned with this problem review it in conjunction with representatives of the private utilities and the aluminum industry. They should determine the extent to which dependence can be placed upon Canada and upon the private utilities and the aluminum industry itself. The balance of the power needed should then be covered in a program of Federal dams selected according to factors of strategic location and economy. Power should be made available on terms that will recover the Federal investment chargeable to power, give the Federal stockpiles and other security needs a prior claim on materials produced, prevent monopolization of the power, and encourage competitive markets.

INTRODUCTION

This report recommends adoption of a power program by the private utilities, aluminum companies, and the Federal Government in order to permit the aluminum industry to grow. This program should be broad and flexible enough to protect the needs of other strategic materials and atomic developments as they become known.

Today the aluminum industry is practically stalled at its present size by the power shortage. Consumers want much more aluminum than they can get, and the shortage will increase and probably last for at least 10 years unless the power shortage is relieved. Compared with recent shortages of steel, copper, lead, or zinc, the aluminum shortage is relatively more drastic and more harmful. It has the immediate effect of hurting the national security in a most vital spot at a time when this Nation is trying to maintain a powerful international position. And continuation of the aluminum shortage will materially restrain the total productive capacity of the country by contributing to shortages of steel, fuel oil, and other materials.

Aluminum is the basic material out of which the Air Force is built. World War II forced an eightfold expansion of our primary aluminum capacity, but today the expansion has been cut back one-half by the lack of suitable power. Also, there is no stockpile of the metal or its products. The lack of such a stockpile at the start of World War II contributed to delays in building the Air Force, took aluminum from other war needs, and increased the loss of lives and other costs of the war. The present policy of the Munitions Board is to stockpile bauxite instead of aluminum. But bauxite is months away from conversion to metal and it might never become aluminum in the event of damage to a few alumina or power plants in the United States. Even if sufficient appropriations were made in 1948 for stockpiling aluminum, and the necessary priority laws were passed, an adequate stockpile would require at least 2 years of accumulation and would take all of the present output, leaving no primary metal for civilian use.

The new 70 group Air Force and related naval air force is to be completed by 1953 and will require approximately 100,000 short tons of virgin aluminum every year for replacements. This would be almost one-seventh of the expected domestic output of the metal. It can be had as long as present conditions continue only at the expense of the inadequate civilian supplies.

Private enterprise, largely one company, built the American aluminum industry in the 52 years, 1888–1940. But in the 7 years 1941–47, the war forced the Federal Government to become the senior partner in the industry. Today, half of the primary aluminum capacity of the country is in war plants built or financed by the Government and now operated by private enterprise.

But while the Government has withdrawn from one phase of the aluminum industry through the sale or lease of plants, it is still a controlling partner. It sells to the industry about 70 percent of the electric power without which there would be no primary aluminum. In the Tennessee Valley, the TVA provides power for about 20 percent of the national primary capacity, and in the Pacific Northwest, the Department of the Interior provides power for about 50 percent.

All of this power is hydro, produced by multi-purpose dams. Most of the balance of the power used by the industry is also hydro, produced at dams built by the Aluminum Company of America. Since 1937 the aluminum industry has found it more practical and economical to depend upon Federal power for expansion, thereby avoiding problems of large investments in new dams and recapture rights of the Federal Government. Hydro power has thus become the foundation of the aluminum industry because it has been the least expensive of alternative sources of energy.

This Nation now needs a far greater output and more economical use of all energy resources, including coal, oil, natural gas and hydro. The country should be concerned with the tremendous waste of a million and a half kilowatts flowing unused from the St. Lawrence River into the Atlantic, and over 20 million kilowatts pouring unused from the Columbia River into the Pacific. These and losses from other rivers are occurring at a time when shortages of oil, natural gas and electricity have put thousands of men temporarily out of work, cut down production and inconvenienced millions of persons from New York to California. At the same time the aluminum industry has been forced to turn to gas. In Texas, the Aluminum Company of America is embarking upon gas for the first time to generate electricity. This action was taken only after the Federal Government turned down requests of all three aluminum producers for more hydropower.

Under present programs for hydroprojects, the Federal Government has to refuse additional power to the aluminum industry and cannot promise the industry any more power for years to come. Demands are too great from other users, including those that have preferential rights under laws governing both the TVA and the Department of the Interior. Men in Congress even have urged that the TVA cancel industrial contracts, including aluminum, in order to serve other customers preferred by law.

If the Federal Government were to alter its power policy and reduce its sales to the aluminum industry, the whole country would be injured. The industry would have to shift to higher cost energy from fuels, raise aluminum prices and restrict the expansion of markets. It would also deprive other users of large amounts of oil or gas.

The most practical solution would appear to lie in the further development of Federal hydro projects except to the extent that the private utilities and the aluminum industry itself can supply energy at suitable prices and without depriving other users of substantial quantities of oil and gas. However, a Federal power program should be flexible enough to accommodate the needs of other strategic materials and atomic developments. It should be planned so as to recover the Federal investment and to assure priority to the national security in the disposal of aluminum and other strategic materials.

ALUMINUM, ITS NEW IMPORTANCE

Aluminum has recently achieved a strategic position similar to certain other materials for which the Government has had to provide special measures. Prior to and during the war, the Government expanded power installations for the aluminum industry that probably cost over $200 millions, and directly invested $739 millions in loans and facilities for aluminum production. It adopted a plant disposal program to promote competition and expansion of the industry. It investigated raw material reserves and processes for the use of substitutes for bauxite. Some of these programs are still continuing.

These activities have their parallels in other industries where the national interest cannot be fully served through exclusive reliance upon private enterprise. For example, petroleum obtained Federal assistance in various ways, including development of Arabian oil by American companies with the aid of the State Department, Reconstruction Finance Corporation, Lend Lease Administration, Export-Import Bank, surplus property disposal, and through orders for oil by the Navy Department. The rubber industry has been subject to recent Federal legislation requiring the maintenance of synthetic rubber plants and the use of certain amounts of synthetic rubber in order to protect the national security in the event of interruption of imports of natural rubber.

This interest of the Federal Government in aluminum rests on its new importance to the national security and the fact that any adequate security program for aluminum must be very large according to our experience in World War II.

The demands for aluminum in this country during World War II raised this metal from a very minor position to second to steel. Aluminum had been a minor metal for a long time. Twenty-five years ago, production of steel was more than 500 times greater by weight, and the production of copper was more than 10 times greater. In the peak year of production, 1943, the tonnage of steel was still 97 times greater and the output of copper nearly 60 percent greater. But in actual cubic volume, it took only the 4 years between 1939 and 1942 for aluminum to pass zinc, lead, and copper. It was an epochal event in industrial history when aluminum, only 50 years young commercially, caught up with much older commercial metals, including copper, a few thousand years old. In tonnage, aluminum was still somewhat behind these metals but in extent of annual new usage it was ahead. It has since kept ahead. (See appendix, table 1, for production statistics). This was due to the lightness of the metal, permitting 1 pound to equal by volume or area 2.6 pounds of zinc, 2.9 pounds of steel, 3.1 pounds of brass, 3.3 pounds of copper, or 4.2 pounds of lead.

The wartime demand for aluminum was principally for the air force, roughly two-thirds of the weight of a plane being aluminum. But the peacetime demands for the metal have grown so rapidly within the past 3 years that the rate of increase exceeds the other principal metals. Aluminum now finds thousands of applications, many of them entirely new since the war. These are so diversified and so many of them represent a more economical displacement of heavier or more expensive materials that it is unlikely that the demand for aluminum will shrink seriously even when steel and other materials again are abundant. These new

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fields include building materials, trucks and trailers, wire and cable, and displacement of copper and zinc.

A foremost authority on metals, Dr. Zay Jeffries, director of research for General Electric, believes that the normal place of aluminum is second only to iron in cubic volume of production, and that it will contend for second place in weight production by 1970. A recent market study by the Bonneville Power Administration estimates that this date could be advanced to 1960 when the domestic market for primary aluminum could triple or quadruple from the 1947 production of 572,000 tons to a figure between 1,700,000 and 2,700,000 tons per year.[1] The Bonneville report was based on an extensive survey among principal aluminum users. It points out that aluminum is still in the early stages of development and that growth of consumption can be more rapid than in the past.

NATIONAL BENEFITS OF ALUMINUM EXPANSION

The introduction of various materials into common usage at different times has profoundly changed human history. Today, among the most notable materials are commercial fertilizers upon which depends agricultural productivity, and copper, steel, cement, rubber, and petroleum products upon which depend the instruments of communication and transportation and the existence of cities. Although one cannot now access all of the important consequences of wide usage of aluminum, already the following examples show that the metal will deeply affect ways of living and will contribute greatly to the income of this country.

1. Air transportation rests upon the use of aluminum in planes. From this flows not only the peacetime consequences of air travel and cargo transport but also the revolutionary change in the use of airpower as the chief weapon of national security.

2. The rapid application of aluminum in other fields of commercial transportation—buses, trucks, truck trailers, railroad cars and shipping containers—means large economies in costs of operation and maintenance. Weights of the transporting vehicles are reduced, and the weight of payload is increased. The result is less cost for fuel, rubber tires, railroad maintenance, repairs, and replacements per unit of traffic carried. Eventually, aluminum may save each year millions of gallons of gasoline and diesel oil, millions of rubber tires and millions of man-hours of labor in all transportation services.

3. In building construction, the largest present field for aluminum, the metal offers other economies. Men install it faster than heavier materials. It last much longer than carbon steel. It requires no paint. It reflects heat as an insulator and conserves fuel. Ultimately aluminum will save each year in the building and construction industry millions of man-hours in construction, maintenance and repair, millions of gallons of paint, and millions of tons of coal or gallons of fuel oil or the equivalent in gas.

4. In fields of agricultural and manufacturing machinery, tools and household appliances and equipment, aluminum will save replacement costs through the elimination of rust, economies in paint, and will reduce hours of work by millions of housewives, farmers and laborers in moving lighter loads.

A nation that does its essential jobs of production and transportation faster and at less cost than other nations can be materially richer and stronger. Aluminum builds national security far beyond its essential use in the Air Force. In terms of ability to fight a war, the wide use of aluminum in peacetime applications means that for military purposes there will be available at least the following gains:

1. Manpower saved in the home, factory, and farm in moving lighter loads;

2. Gasoline, fuel oil, and coal saved in moving lighter vehicles and heavier payloads in transportation;

3. Space in freight cars and ships saved in reducing the volume of fuels needed for transportation;

4. Manpower, materials and transportation services saved in industry by the displacement of heavier and more expensive materials;

5. Manpower and materials saved in the repair and maintenance of products that use aluminum instead of other metals or materials that deteriorate or rust.

If, as seems entirely feasible, the widespread usage of aluminum and other light metals and materials can ultimately save at least 10 percent in the production

[1] Unpublished report prepared by the Bonneville Power Administration for the Department of the Army, Corps of Engineers, 1947.

costs of this country, or add at least 10 percent to our productive ability in peace or war, the results would be worth $10 to $15 billions per year at current rates of annual production. Whether this estimate is too high or low, the true figure will pay many times for the cost of expansion of the aluminum industry, including the cost of power facilities.

THE RECENT RECORD

At the end of 1947 the industry was able to look back at a record of recent growth that no other important metal could equal.

In capacity to produce virgin or primary metal, the industry multiplied itself nearly 8 times during the war and then settled back by 1947 to a level 4 times higher. Capacity mounted from 164,000 short tons per year in 1939 to 1,175,000 tons in 1943 and then retreated half way to 650,000 tons in 1947. This retreat was not forced by falling demand but by the retirement of some high-cost obsolete capacity built before the war and some modern but uneconomical capacity built during the war. The uneconomical war-built plants were located where electric power no longer was available or else was prohibitively expensive.

The production of primary aluminum kept pace with capacity from 1939 until 1943 because of the pressure of war demands. But in 1944 supply caught up with demand and war plants were cut back or closed. At the end of 1945 all of the Government plants were idle and the private plants were facing substantial curtailments. But early in 1946 the plant disposal program of the Government established two competitors of the Aluminum Company of America. Postwar reconstruction got under way. Shortages of steel, copper, lumber, and other materials boosted the demands for aluminum. Prices of aluminum products remained at their all-time lows while prices of competing metals rose sharply, and the industry was launched upon an amazingly fast recovery. In the spring of 1947, a temporary excess of supply appeared, and one of the producers cut back production. However, by the end of the year, demand again exceeded supply, a power shortage prevented reopening of the capacity that had been shut down, and all three aluminum producers looked vainly for power to expand. The trend of primary production is summarized in 163,545 tons in 1939, the record high of 920,179 tons in 1943, a peace conversion slump in 1946 and recovery in 1947 to 571,750 tons.

In all of the years 1939 to 1947, the total production of aluminum products was greater than the output of domestic primary metal. During the war years most of the difference was made up by imports from Canada. During 1946 and 1947, most of the difference was obtained by drawing upon plant inventories, by melting war surplus metal and surplus airplanes into secondary aluminum, and by absorbing nearly all of the Government stockpile of 185,000 tons held by the Metals Reserve Company. Through such measures it was possible for shipments of all aluminum products, including ingot, to rise from 225,000 tons in 1939 to the all-time high of 1,244,000 tons in 1944. In the ensuing 2 years, shipments fell from peak war levels but in 1947 they advanced again, reaching 924,000 tons, or three-fourths of the wartime record. For statistical details, see appendix, table 2.

THE CURRENT SHORTAGE

There are various indications of the current shortage. The prices of various grades of secondary ingot are normally less than the 15-cent price of pure aluminum ingot, but in recent months such ingot has been priced nearly 50 percent higher. No. 12 foundry alloy was selling as much as 6 cents more per pound in June 1948, and steel deoxidizing ingot as much as 8 cents more per pound. These prices reflect the rapid consumption of war surpluses and the absorption of the Government stockpile. They forbode a further increase in the shortage.

A gray market in aluminum sheet appeared early in 1948 with warehouses obtaining 10 cents more per pound above normal prices. New customers had great difficulty in obtaining sheet from warehouses and deliveries were promised in 3 to 6 months.

I. W. Wilson, vice president of Alcoa, estimates the 1948 shortage at 275,000 tons of primary metal and believes that by 1952 the shortage may be at least 375,000 tons.[2] This estimate does not include the aluminum requirements for the new Air Force or for other needs of national security. R. S. Reynolds, Sr., president of Reynolds Metals Co., believes that the Government and the industry should finance an expansion of 2 billion pounds of capacity.

[2] Appendix 3. Letter from I. W. Wilson to Paul J. Raver, Administrator, Bonneville Power Administration, April 23, 1948.

Thus far, the announced plans of the aluminum industry call for a net addition of 108 million pounds to the primary capacity by 1950. This will come from a 72-million-pound plant to be built by Alcoa in the Texas Gulf area where natural gas will be used to produce power; and 76 million pounds of capacity now idle at the Reynolds Metals Co. plant at Jones Mills, Ark., which will be powered upon completion of the Lake Catherine steam plant by the Arkansas Power & Light Co. The gain of 148 million pounds at these two plants will be partly offset by the closing in 1949 of the obsolete Niagara Falls aluminum plant of Alcoa with 40 million pounds of capacity. The powerplant at Niagara was recently sold by Alcoa to the Niagara Falls Power Co. The present power shortage in the Pacific Northwest may also require the intermittent shutdown of 72 million pounds of capacity, half at Spokane and half at Vancouver, Wash.

NATIONAL SECURITY REQUIREMENTS

The wartime shortages of aluminum were dramatized by congressional investigations, by the campaign to collect pots and pans, by the delays in airplane production, by the power shortage in the United States, and by the aid given by the RFC in building up the Canadian Shipshaw power project in order to expand imports of aluminum from Canada. Aluminum was the first of the war materials to be controlled by priorities. But at the end of 1943, the impression was widespread that the shortage no longer existed. This impression was reinforced in 1944 by the cutbacks in production.

However, it was not widely understood that war requirements had been substantially modified because of the aluminum shortage. The Army and the Navy were told in 1941 and 1942 to redesign equipment, aircraft, and ships, in order to reduce the amount of aluminum required. This delayed production, increased the weight of war products, reduced mobility in combat, and increased costs.[3] The subsequent demands for aluminum were met but this merely meant that demands were cut so that they could be met. If the War and Navy Departments had not reduced their requirements, they would have called for up to 600,000 tons more aluminum than they obtained in the peak war year. This is the conclusion of the special analysis made by the Army and Navy Munitions Board for the Senate Small Business Committee in the autumn of 1946. The results of that study, as summarized in the staff report of the committee, were that peak war requirements for all branches of the services, if concentrated in one 12-month period, would have amounted to 3,754 million pounds of fabricated products, against which peak supplies were 2,565 million pounds.[4]

The estimated deficiency of 600,000 tons of aluminum would have to be increased by allowances for scrap and melting losses in converting ingot into fabricated products and reduced by allowances for the fact that peak demands of each branch of the armed services would not actually have been concentrated in the same 12-month period. But the substance of the conclusion would remain—the Army and Navy fought the war with much less aluminum than they really wanted.

At present the Army and Navy are again redesigning equipment and vessels and placing great stress on lightness of weight in order to increase mobility and to facilitate airborne service. This means that some uses discontinued during World War II will be restored, and new uses will be developed. Consequently, aluminum requirements must increase for security purposes during peacetime, and would possibly be much greater during another emergency than in World War II.

The most immediate and significant increase required in the near future will come from the expanded 70-unit Air Force and related Naval Air Force. To build up to this force will take about 5 years. It will then require an annual replacement program of 111 million airframe pounds.[5] Based on World War II experience, this is the equivalent of about 80 million pounds of fabricated aluminum products. Approximately the same amount of aluminum may be needed for motors, propellers, other parts, and for replacements. Possibly another 40 million pounds would be needed for losses, scrap, and pipeline inventories. The program might therefore require each year after 1952 roughly 200 million pounds of primary aluminum for annual maintenance and replacement of planes.

[3] Future of Light Metals and Government Disposals, report of the chairman to members of the committee of the Special Committee to Study Problems of American Small Business, Senate Committee Print No. 14, 79th Cong., 2d sess., p. 14.
[4] Ibid., p. 63.
[5] National Aviation Policy, report of the Congressional Aviation Policy Board, S. Rept. 949, 80th Cong. 2d sess., p. 7.

If to this figure is added some allowance for aluminum in other branches of the armed services and there is deducted an estimate of 30 million pounds for aluminum currently going to all branches,[6] a net total may be assumed of 200 to 225 million pounds of aluminum. This would be the pending annual addition to markets after 1952 for the national security during peacetime.

Much more important, however, is the question of what should be the minimum aluminum capacity of the country as a security measure in the event of war. For accurate planning, two essential steps are necessary to determine aluminum requirements at any time. First, the armed services must be able to convert planes, tanks, ships, and other instruments of war into amounts, shapes, dimensions, and alloys of aluminum. Second, the armed services must have a program for specific quantities of aluminum-using products, particularly for aircraft, the largest user of the metal. But even if the armed services undertake these two steps, all estimates may become obsolete as conditions and requirements change during a war. The only way any country could determine accurately the war requirements for any material would be for it to plan a specific type of war of predetermined duration and cost and carry it to completion as scheduled. A country that plans a purely defensive program for security will obviously have its requirements determined by its enemies and the unknown contingencies of actual warfare.

Our experience in World War II illustrates all of the hazards of a country on the defensive. In 1939 the armed services completely underestimated the role of airpower and the associated aluminum requirements.[7] Early in 1940, the Munitions Board removed bauxite—the raw material of aluminum—from the list of strategic and critical materials to be stockpiled. Two years later, submarine sinkings of American bauxite ships threatened to wreck our air program. Early in 1940, on May 16, when the President called for an air force of 50,000 planes and an industrial capacity of 50,000 planes a year, neither the Army Air Corps, Alcoa, nor the aircraft manufacturers knew how much aluminum went into an airplane.[8] Well into 1942 the armed services could not supply detailed estimates of aluminum requirements. Even 15 months after Pearl Harbor, by March 1943, the armed services were submitting unrealistic estimates.[9] The difficulties were that (1) the armed services were unprepared to convert war products into aluminum requirements and (2) the aircraft program constantly changed from a negligible size in 1940 to a broad plan of 50,000 planes in the Air Force and to a final production target of 125,000 planes per year. Under the circumstances, the civilians of the War Production Board had to assume responsibility for working out the total aluminum program and its component capacities.

As of 1948, the minimum aluminum requirements of this country as a security precaution—both in stockpile and productive capacity—are as indeterminate as ever. The Navy and Air Force did not provide a program of air requirements in accordance with any unified plan of action either to the President's Air Policy Commission or to the Congressional Aviation Policy Board.[10] The only definitive air program thus far has been the one imposed by Congress in the appropriations to build the 70-group Air Force and the related Naval Air Force. This program is not necessarily what the country would need if engaged in war, but is only "the initial strength necessary to mount promptly an effective, continuing, and successful air offensive against a major enemy.[11] In other words, this air program may insure victory but it is still only the initial force for a war that might go on.

Consequently, in current studies of industrial mobilization and stockpiling, the Federal interagency committees advising the Munitions Board have lacked any realistic guides to military requirements. As an interim guide, the Munitions Board has suggested that military requirements for all materials be taken at World War II consumption rates plus 33⅓ percent.[12] On the other hand, according to the Secretary of Defense, "the maximum military requirements of petroleum in the event of a war emergency are now estimated nearly to double the requirements of World War II."[13]

Obviously, the wisest course in security planning is to assume that security requirements will expand rather than decrease, just as World Wars I and II each

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[6] The President's Air Policy Commission estimated that present military procurement is at the rate of 21 million airframe pounds annually, Survival in the Air Age, p. 46. Seventy percent of this, or 14 million pounds, may be aluminum and may be matched by another 14 million pounds for replacement parts, motors, and propellers. Another 2 million pounds may be assumed for other military and naval uses.

[7] Aluminum Policies of the War Production Board and Predecessor Agencies, Historical Reports on War Administration: War Production Board, Special Study No. 22, July 15, 1946, p. 5.

[8] Ibid, p. 6.

[9] Ibid, p. 162.

[10] National Aviation Policy, S. Rept. No. 949, 80th Cong., 2d sess., March 1, 1948, p. 6.

[11] Ibid., p. 7.

[12] National Military Establishment, Munitions Board, Memorandum MB 334, January 6, 1948.

[13] Investigation of the National Defense Program, United States Senate, 80th Cong., 1st sess., pt. 41 p. 25447.

required a greater volume of materials than their respective predecessors. Based on the Munitions Board guide of 133 percent, the aluminum industry should be able to produce, for military purposes only, at least 3,420 million pounds of aluminum products in a peak war year as against 2,565 million pounds shipped in the peak of World War II. But these figures rest on the demands of the armed services which were cut back in 1941 and 1942 by the aluminum shortage. If the estimated original needs of 3,754 million pounds are used, the industry should be able to produce about 5,000 million pounds of aluminum products.

Thus, somewhere between 3.4 and 5.0 billion pounds of capacity for end products might be desirable as a minimum for military purposes exclusively. The raw material for these products could come from a combination of stockpile, imports, and domestic recovery of scrap and production of primary aluminum. How much the other sources can contribute will determine what the minimum primary aluminum capacity should be. If one were to assume the same reliance on Canada as during World War II, then the domestic primary capacity should be about 133 percent of the 1943 peak, or 3,130 million pounds. If one assumes the worst possible conditions, that Canadian imports would be unavailable and that secondary sources would be undependable, then the minimum primary capacity would lie between 3.4 and 5.0 billion pounds.

An additional allowance must be made for essential civilian uses. This would also be conjectural because of the difficulties of forecasting the extent to which the civilian production economy could eliminate aluminum after a period of extensive adaptation to the metal. As of 1948, anywhere between all or none of the current civilian consumption rate of 1,848 million pounds could be eliminated.

Hence, one may tabulate the following ranges of primary aluminum capacity which this country ought to have for security as of 1948:

Assumptions	Millions of pounds	
	Minimum	Maximum
1. Military needs:		
(a) 133 percent of peak World War II primary capacity	3,130	
(b) 133 percent of peak World War II true needs, all aluminum products		5,000
2. Civilian needs:		
(a) None	0	
(b) 1948 consumption, all products		1,848
Total	3,130	6,848

Actual primary capacity in operation in 1948 is 1,250 million pounds, less than half of the minimum estimate and less than one-fifth of the maximum estimate of security requirements.

Now one assumption underlies all of these estimates; namely that a continuing type of war would be likely and that productive facilities would not be reduced materially by air attack. But the President's Air Policy Commission has stated that "if future aggressors will have learned anything from World Wars I and II, it will be that they must never let United States industrial power get underway; they must destroy it at the outset if they are to win." [14] From this premise the Commission recommended a 70-group Air Force and related Naval Air Force for the purpose of meeting any initial attack on this country and carrying the war to the attacker. Yet the Commission doubted whether the industrial capacity of the country after an attack would be sufficiently intact to build further for the conduct of a war. It recognized that there may be no warning of an attack and that it "might be such as to cripple at the very outset our capacity to resist and to build up after hostilities start." [15] Still, the Commission clearly assumed that the aircraft industry would be able to expand in order to sustain a war, and the Commission recommended "maintaining domestic sources of critical and strategic materials as an effective and advantageous alternative to the stockpiling of certain imported items and materials." Such sources would be effective only if production facilities in key industries were unharmed. From the apparent contradiction in possibilities, one can draw only the conclusion that if there is another war the strength of the United States will be proportional to the amount of its initial airpower and the proportion of productive capacity that survives attack. Accordingly, the stronger the American aluminum industry, the better would be the prospects of survival of the Nation in the event of war.

[14] Survival in the Air Age, January 1, 1948, p. 12.
[15] Ibid., pp. 22 and 23.

AN ALUMINUM STOCKPILE

There is practically no Government stockpile of primary aluminum at present. Shortly before V–J Day, on July 31, 1945, the Metals Reserve Company of the RFC held 368 million pounds. Nearly all of this has since been sold to industry.

The Army and Navy Munitions Board has chosen to stockpile bauxite rather than aluminum primarily because of limited appropriations for all stockpiles. Domestic reserves of high-grade bauxite have been reduced to the equivalent of a few years supply based on consumption in World War II. The Board has classified bauxite as a group A material. This group includes materials for which stockpiling is deemed the only satisfactory means of insuring an adequate supply for a future emergency. The Board has classified aluminum among group B materials which were not to be stockpiled except if available from war surpluses because the supply could be insured either by stimulating North American production or by use of substitutes.

Now bauxite is a long distance from conversion to aluminum both in time, materials, and transportation costs and distances. Suppose a stockpile of high-grade bauxite were to be acquired according to the interim standard of the Munitions Board equal to 133 percent of the 1943 shipments of aluminum products. To produce 2,565 million pounds of aluminum products without allowing for scrap and losses of metal would require about 10,260 million pounds of high-grade bauxite. The present aluminum plants, producing about 1,250 million pounds of primary metal per year, would require 2 years to put out this amount of metal. From 3 to 6 months more would be needed before the metal would rest on the floors of aircraft plants in the form of fabricated aluminum products. Another month or two would be lost in transporting ore from stockpiles to alumina plants, alumina to reduction plants, and pig aluminum to fabricating plants. Altogether, 28 to 31 months would probably elapse if all of the bauxite were converted into fabricated aluminum with existing aluminum reduction capacity.

Large quantities of raw materials would burden the railroads, moving in more than 300,000 freight car loadings.[16] Much of the alumina would move halfway across the country to the Pacific Northwest and the pig aluminum would then move more than halfway back across the country. About 25 billion kilowatt-hours of electrical energy would be used to convert the alumina into metal.

Obviously, the present stockpile program for bauxite is totally inconsistent with planning the national security in the expectation that a war might start without warning by an aerial attack designed, as the President's Air Policy Commission has stated, "to cripple at the very outset our capacity to resist and to build up after hostilities start."

For such a contingency, there might not be 31 months of time to convert all of the bauxite into aluminum. Attack upon four alumina plants, material damage to the railroad, or the bombing of two power dams could leave much of the stockpiles of bauxite resting indefinitely as useless monuments to lack of foresight. Regardless of many other hazards to production during a war, a stockpile of aluminum instead of bauxite would at least bring the country months closer to whatever airplane production could be achieved.

The weaknesses in the national security are apparent from the following facts:

1. The current annual rate of production of primary aluminum is about 625,000 tons. Productive capacity is the same but may be increased slightly to 700,000 tons by 1950 if present plans for expansion are carried to completion.

2. By 1953, annual military requirements for aluminum, based on the 70 group air force, will be about 200 million pounds, or one-seventh of the expected primary capacity of the industry.

[16] To produce 2,565 million pounds of primary aluminum and ship it to fabricating plants would require the following principal raw materials and freight car loadings:

	Millions of pounds	Average pounds per car	Freight car loadings
(a) High-grade bauxite	10,260	60,000	171,000
(b) Alumina	5,130	80,000	64,000
(c) Pitch and coke	1,700	100,000	17,000
(d) Pig aluminum	2,565	80,000	32,000
(e) Miscellaneous—limestone, lime, soda ash, and coal	2,600	60,000	43,000
Total			327,000

3. World War II needs for all aluminum products in the peak war-years were close to 1,900,000 tons, and actual shipments were nearly 1,300,000 tons. There was a deficiency of about 600,000 tons.

4. According to temporary standards adopted by the Munitions Board, this country ought to be able to provide in the event of emergency an annual output of between 1,600,000 and 2,500,000 tons of aluminum products solely for military needs. As of 1948, the maximum figure might have to be increased to 3,400,000 tons if civilian requirements are considered.

5. The Munitions Board is stockpiling bauxite instead of aluminum. But a stockpile of bauxite equal to 1943 shipments of aluminum would be 2½ years away from conversion into aircraft. If the country were to be involved in the type of air war envisioned by experts, much of the bauxite might never be usable.

6. Present civilian demands for primary aluminum are estimated at 900,000 tons; 1952 demands at not less than 1 million tons, and 1960 demands at between 1,700,000 and 2,700,000 tons. If the maximum demands could be met, the national security would be much stronger. The country would put to to other essential uses the annual savings in manpower, materials, and transportation resulting from the more extensive use of aluminum in lieu of heavier and more expensive materials.

From the foregoing facts one may draw the final conclusion that in the interests of national welfare as a whole and national security in particular, the primary aluminum capacity available to the country ought to be expanded as rapidly as possible from 625,000 tons per year to at least 1,600,000 tons,and if possible to 2,700,000 tons. An adequate stockpile of metal should be built up, but in order to do this with the least injury to the civilian economy, the stockpile should be built up slowly at first, and more rapidly as aluminum capacity is added.

EXCESSIVE COSTS RESULTING FROM WAR DECISIONS

In planning a new expansion program, the aluminum industry and the Federal Government will want to avoid some of the types of decisions made during World War II that proved quite costly. These decisions must be credited with having produced the aluminum that won the war. But they were made under urgencies and conditions that the country does not face now. More deliberate and more economical decisions can be made at present if policies are determined in the maximum national interest.

Most of the excessive costs ensued from decisions on where the power was to be obtained for aluminum. Power was always the controlling factor in locating the primary aluminum plants built by the Government. Time was pressing, and power had to be accepted wherever available regardless of cost as long as it would produce aluminum faster than at more economical locations where new generating plants or dams could not be built or completed as quickly. But after the war, the high cost of such power and the lack of substitute energy at low rates forced the shutdown of 864 million pounds of aluminum capacity located in six Government plants, built at a cost of $119 million.[17] These plants have now been put to other uses or are idle. Some of the original investment is unrecoverable, and the country has lost annually 550 million pounds of aluminum that properly located plants would have produced. At current prices, the shortage of primary metal after conversion to finished products would have an average value of at least 30 cents a pound, or at least $165 million. That much is being currently lost to the national income.

[17] See the following table:

Plant	Cost, millions	Capacity, millions of pounds	Status June 1, 1948
Burlington, N. J.	$16.8	108	Dismantled.
Jones Mills, Ark., 50 percent	14.6	72	Idle, no power until 1950.
Massena, N. Y.	19.0	108	Idle, no power.
Los Angeles, Calif.	24.0	180	Dismantled and sold.
Queens, N. Y.	32.6	288	Dismantled.
Riverbank, Calif.	11.7	108	Idle, no power.
Total	118.7	864	

Source: Surplus Property Board and War Assets Administration.

The wartime waste included the extra costs of the power used in these plants above an economical price. Alcoa was rebated by the Reconstruction Finance Corporation $26.7 million for the costs of power above 3 mills per kilowatt-hour.[18]

Had the plants been located where such a rate might have been available, they could have been operated by the industry after the war although that rate would have been 50 percent higher than the cost of power at the most economically located Government plants. These are three plants built in the Pacific Northwest at an original cost of $47.5 million. They are now producing at full capacity of approximately 400 million pounds per year. The only other Government capacity that survived for current operation is half of the plant at Jones Mills, Ark., producing about 72 million pounds per year. This portion of the plant has its own power supply using natural gas.

Another high cost followed from the decision of war agencies made early in 1941 to finance completion of the Shipshaw power project in Canada in order to purchase aluminum from the Aluminum Company of Canada. The alternative would have been a decision in 1940 or early in 1941 to complete more quickly the Federal power projects nearing completion in the Pacific Northwest.[19]

As a result, RFC purchased, 1,288 million pounds of Canadian aluminum during 1941–45, advancing $68.5 million to build the Shipshaw power project and related facilities. The average price of the metal (excluding the tariff) was 18.1 cents per pound compared with the 15-cent price in the United States and with 12.3 cents, the average cost of producing metal in the Pacific Northwest Government plants during the war. Had this metal been produced in this country, the saving would have been at least 3.1 cents per pound, or nearly $40 millions. Adding the profits to American producers and the RFC had the metal been produced in the Northwest, the total gain to this country would have been about 5.8 cents per pound, or nearly $75 million.[20]

Another significant cost during the war was the use of coal to generate power for aluminum when Northwest hydro power flowed unused to the sea. The three eastern Government plants in New York and New Jersey produced 555 million pounds of metal during the war for which about 3 million tons of coal were used.

A summary of only the most apparent costs and consequences is as follows:

1. The building of 864 million pounds of uneconomical aluminum capacity at a cost of $119 million, much of which is unrecoverable.
2. A loss of production from this capacity to meet the current annual shortage of 550 million pounds of aluminum products valued at least at $165 million.
3. Excessive costs of power reimbursed by the RFC to Alcoa for wartime operation of Government plants, $26.7 million.
4. Extra costs of buying Canadian aluminum instead of planning expansion of power capacity in the Pacific Northwest or elsewhere, $40 to $75 million.
5. Use of 3 million tons of coal to generate power, and use of scarce labor and freight cars when Northwest hydropower flowed unused to the sea.

THE PROBLEM OF POWER

The shortage of power for aluminum and the approximate investments required to eliminate it are estimated as follows:

Year	Cumulative tons of aluminum	Cumulative kilowatts	Cumulative approximate investment in generation plant and transmission facilities ($200 to $250 per kilowatt)
1948	275,000	550,000	$110,000,000–137,500,000
1952	900,000–1,800,000	1,800,000–3,600,000	360,000,000–900,000,000
1960	1,000,000–2,000,000	2,000,000–4,000,000	400,000,000–1,000,000,000

[18] Statement of profits from operation of Government plants filed by Alcoa with the Reconstruction Finance Corporation, dated December 31, 1945.

[19] Problems of American Small Business, Hearings Before the Special Committee to Study and Survey Problems of Small Business Enterprises, United States Senate, 79th Cong., 1st sess., pt. 60, The Shipshaw Contract: IV, pp. 7164–7165 and 7168.

[20] The actual gain would have been somewhat less because American producers would have absorbed more freight in shipping from Northwest plants to eastern cities than the Canadian company absorbed.

To meet the indicated shortages of metal, the industry will have to invest in reduction plants alone approximately $333 per ton at 1947 levels of construction costs. By 1960, the industry will have had to invest a total of between $333 and $666 million. In addition, the industry will have to provide large funds for expansion of bauxite mines, alumina plants, and fabricating facilities that may bring the total new investment up to between $500 and $1,000 millions. The associated power investment, $400 to $500 per ton or $200 to $250 per kilowatt, would aggregate by 1960 between $400 and $1,000 millions. The exact investment per kilowatt will depend both on construction cost levels and the length of transmission lines between powerplants and aluminum plants.

Such an investment program will have to be borne largely by the three present primary aluminum producers. It will present a very difficult problem to all of them because their invested capital currently is only about $330 million. For the two younger producers, Reynolds and Permanente, who entered the primary industry after 1939, the financial problem will be extremely serious. The industry consequently is interested in transferring to private utilities or to the Federal Government much of the investment responsibility for power.

Today, the industry bases practically all of its primary capacity upon hydropower. The Federal Government serves 70 percent of the capacity and the privately owned hydroplants of Alcoa serve most of the balance.[21] Only one plant uses fuel for power, burning gas and oil. This plant was built under war conditions when sufficient hydropower was not available.

Three practical solutions now appear for meeting the aluminum power deficiencies: (1) Additional imports of aluminum from Canada; (2) some power investment by the industry and the private utilities; and (3) construction of Federal power dams.

During the war, RFC money financed much of the Canadian aluminum expansion, and this country took a substantial share of Canadian output. Since the war, the Aluminum Company of Canada has returned to foreign markets for most of its business. In 1947, Canada exported to the United States only 31 million pounds, but increased its exports in the first 4 months of 1948 to 46 million pounds of metal annually. The war-time capacity of 1,000 million pounds is not fully usable at present because postwar contracts were made for the sale of power to other users. If some of this power is released for aluminum, exports to this country can increase. But any substantial contribution from Canada would require its own power expansion.

In the near future, the American aluminum industry would gladly take substantial imports from Canada, paying the 2-cent tariff and obtaining a drawback on American exports. But the longer-run interests of this country would apparently be served best by a limited reliance upon Canada. In the event of emergency, Canadian aluminum would be subject to British control and priority, as in World War II. The cost of the metal to the American industry would probably be higher, even after excluding the tariff. During World War II, the Canadian

[21] See the following table.

Aluminum plants	Jan. 1, 1948	
	Capacity—Millions of pounds	Percent
Total	1,288	100
Using Federal power	903	70
Pacific Northwest: 4 plants	632	
Tennessee Valley:		
Alcoa, Tenn.	171	
Listerhill, Ala.	100	
Using non-Federal power	385	30
Alcoa, Tenn.	106	
Badin, N. C.	48	
Jones Mills, Ark.	[1] 76	
Massena, N. Y.	115	
Niagara Falls, N. Y.	40	

[1] Power is provided in the plant from engines burning gas and oil.

aluminum company was a hard bargainer, as American Government officials have testified, and the price of the metal was considerably higher than the domestic price. As long as the Canadian company would have to expand its own power installations to service larger exports, the expansion needed for this country should occur within our own borders where we have ample resources of undeveloped and economical hydro power.

The second solution is for the aluminum industry to invest in its own powerplants, alone or in conjunction with the private utilities. This solution faces a number of difficulties. The industry cannot alone put up the total investment needed in both aluminum and power facilities. Alcoa was able to do this in prewar years when the industry was much smaller and the annual growth of markets was much less. Now, the primary industry is four times its prewar size and it faces the possibility of expansion by 1960 to a level 10 to 16 times its prewar size.

Before the war, Alcoa built its own hydro installations. Today, suitable power sites are generally no longer available for small, private development. The most economical power sites are found on the larger river systems—the St. Lawrence, the Columbia, the Tennessee and the Colorado—where the Federal Government is developing multipurpose projects for flood control, navigation, irrigation, and power, requiring large investments beyond the ordinary ability of private enterprise. Should some sites on these or other river systems be within the ability of private capital to develop, a deterring factor is the right of the Federal Government to recapture power projects after 50 years. Another deterrent is the extra investment needed to obtain from some dams the maximum multipurpose benefits, some of which would not produce revenues or profits for private enterprise.

The aluminum industry may be able to turn for financial aid to the private utilities and purchase some power from plants built especially for aluminum, using coal, gas, or oil. This course of action has been avoided by the industry because it would substantially increase the costs of power. It is notable that the recent power survey made by the National Security Resources Board (May 25, 1948) disclosed that the private utilities were not being called upon to meet the power deficiencies of the aluminum industry even though the utilities plan to expand their capacity by 18.5 million kilowatts by 1951.

In most of the industrial centers of the country, the cost of generating power through burning fuel is considerably greater than the 2 to 3 mills per kilowatt-hour on which the aluminum industry now depends. In most cities, the costs range from 5 to 9 mills. Each mill means 1 cent in the cost of producing a pound of aluminum. If the industry were to purchase ordinary industrial power, it would have to raise the price of metal by at least 3 cents per pound.

The more practical solution would be to locate new aluminum plants near coal mines or in the gas and oil fields. An economical steam plant can generate power at the coal mine or near the oilfields under present costs at somewhere between 3.5 and 4.5 mills per kilowatt-hour at 100 percent load factor. At the gas fields, the present costs would be closer to 3 mills. Although these costs would exceed the most favorable costs for hydropower, they would be partly offset by economies in transportation costs arising from the closer location of aluminum plants to raw materials and to markets.

This solution, however, has a number of disadvantages which have thus far governed the decisions of the industry. The incentives to the private utilities to participate are not great because their investments yield more when they serve retail purchasers. They have gladly foregone the aluminum business. The location of aluminum plants near mines or wells would require a reorientation of the industry at substantial costs in the face of ultimate exhaustion of the nearest sources of fuel. Finally, in the case of oil and gas, the price trend is upward, and the growth of demand already exceeds the growth of new reserves in the case of oil. Dependence upon oil and gas would mean rising costs of aluminum.

The third solution is for the Federal Government to provide more hydropower by building additional dams. This is the choice preferred by the aluminum industry. Alcoa's attitude is stated in the letter from the vice president to the Bonneville Administrator on April 23, 1948 (appendix 3):

"While some of this additional power needed by the industry for the production of aluminum may be made available in other sections of the country, the potentialities of the Northwest for the supplying of power at a price which can be paid by the aluminum industry are so much greater than for any of the other sections of the country that it seems to me rather obvious that you in the Northwest have an opportunity to obtain the greater part of this expansion."

The industry cannot expect additional power from the Federal dams now under construction or to be completed by 1951. About 1.5 million kilowatts of hydro

power will be added by that year to the Federal supply, principally by the TVA and the Bonneville system. In the Tennessee Valley the power shortage is so great that it has been suggested in Congress that the TVA cancel some of its industrial power contracts in order to take care of other customers who have preference under law. In the Pacific Northwest where the power shortage is more acute, Bonneville expects additional power supplies to be rapidly absorbed by utilities serving the public, including publicly owned systems having priority under law. The Northwest power shortage is expected to last at least until 1954 and possibly longer, depending upon the rate of completion of Federal dams now under construction. Even if the shortage is relieved by that date, Bonneville does not expect to have at that time more than a small amount of power available for primary aluminum, possibly 100,000 to 200,000 kilowatts, sufficient for only 100 to 200 million pounds of new capacity.

If additional Federal dams are authorized, the aluminum industry can easily be taken care of along with other essential industries and atomic developments that may expand with the national security program. There are a number of waterpower sites throughout the country that will be more economical than coal, gas, or oil. Some of them in the Pacific Northwest would not be needed for other uses because of the huge untapped power potential on the Columbia River system.[22]

Power from these sources would be about the lowest in cost available anywhere in the country, even after allowing for increases due to rising construction costs. The St. Lawrence project can generate energy at the site for 1.6 mills per kilowatt-hour at cost levels of May 1947.[23] This cost is for an average of prime and other energy. It would be somewhat higher for the prime type of energy needed by the aluminum industry, available 24 hours per day throughout the year. In the Pacific Northwest there are a number of undeveloped power sites from which energy could be sold, based on 1948 construction costs, at not much more than 2.5 mills per kilowatt-hour of prime power at 100 percent load factor delivered to the aluminum plants

It is apparent that a Federal power program for the aluminum industry would be the most desirable solution in low costs of power and in conservation of scarce fuels. It would contribute most to the national welfare and security. The time required to make the engineering surveys and to complete the projects selected would at least run up to 5 or 6 years—or by 1954. The President's Air Policy Commission believes that by 1953 other nations will have the atomic bomb and that this Nation should then have the military and industrial power to protect itself. Therefore, the time to formulate this Federal power program is now—in 1948.

RECOMMENDATIONS

1. It is recommended that the Federal agencies most concerned with the national security and with power meet with representatives of the aluminum industry and the private utilities. Investigations should be made of the contributions that can be obtained through additional aluminum imports from Canada and from power expansion financed by the industry and the utilities. The amount of power that should be provided by Federal projects should be determined and a list of projects should be prepared according to strategic location and economy of cost. This program should then be transmitted to the President and to the Congress.

2. Legislation should provide for sufficient power expansion to take care of other security needs, including atomic developments. Power should be made available on terms that will: (1) recover the Federal investment chargeable to power; (2) give the Federal stockpiles and other security needs a prior claim on the materials produced; and (3) prevent monopolization of the power and encourage competitive markets.

[22] A partial list of hydro projects from which a final selection would be made is as follows:

	Kilowatts of prime power
St. Lawrence project, New York	570,000
Priest Rapids, Wash	[a] 760,000
John Day, Oreg	[a] 720,000
Glacier View, Mont	90,000
Paradise, Mont	310,000
Hells Canyon, Idaho	510,000

[a] These figures include power benefits from water stored at Paradise and Glacier View Dams. This storage would also add 700,000 kilowatts more of prime power to existing or scheduled dams on the Columbia River system.

[23] Federal Power Commission, Bureau of Power, Power Market for United States Portion of the Barnhart Island Project, St. Lawrence River, May 1947, p. 55.

APPENDIX TABLE 1.—*Production of aluminum and other metals in the United States, 1939–47*

[Short tons]

Year	Primary aluminum	Steel (ingots and castings)	Refined copper	Stainless steel	Refined lead	Zinc primary slab
1939	163,545	52,798,714	818,289	179,620	497,991	507,236
1940	206,280	66,982,686	1,033,710	249,980	585,480	675,275
1941	309,067	82,839,259	1,065,667	371,984	634,888	822,020
1942	521,106	86,031,931	1,135,708	340,780	633,818	891,872
1943	920,179	88,836,512	1,206,871	457,448	546,673	942,309
1944	776,446	89,641,600	1,098,786	477,498	538,618	869,302
1945	495,060	79,701,648	843,113	542,904	524,328	764,561
1946	409,630	66,600,000	604,071	----------	413,903	729,400
1947	571,750	[1] 84,700,000	[1] 1,200,000	----------	[1] 576,000	----------

[1] Estimated by Steel.

Sources: Bureau of Mines, American Metal Market, and Steel.

APPENDIX TABLE 2.—*Prices, production and consumption of aluminum in the United States, various years, 1930–47*

Year	Price per pound [1] (cents)	Primary aluminum (short tons)			Apparent consumption [4]	Production of secondary aluminum (short tons)		Shipments of all aluminum products including ingot (short tons)
		Production	Imports [2] (crude and semicrude)	Exports [3] (crude and semicrude)		From all scrap	From old scrap only	
1930	23.9–22.9	114,519	13,386	9,597	[6] 118,307	38,600	[5]	[5]
1935	22 –19	59,648	11,298	2,460	[6] 68,486	51,400	[5]	[5]
1939	20	163,545	9,290	36,632	167,645	53,947	[5]	[8] 225,000
1940	20 –17	206,280	17,436	26,886	227,017	80,362	45,806	[5]
1941	17 –15	309,067	13,358	7,405	302,788	106,857	43,113	[5]
1942	15 –14	521,106	112,112	38,747	588,969	196,464	41,633	699,000
1943	14	920,179	135,581	117,624	877,349	313,961	33,094	1,085,000
1944	14	776,446	100,969	188,108	671,072	325,645	22,899	1,244,000
1945	14	495,060	334,125	5,741	696,918	298,387	27,311	899,000
1946	14	409,630	42,607	16,694	575,687	278,073	[7] 90,535	765,000
1947	14	571,750	15,610	62,333	571,760	[8] 325,000	[8] 125,000	924,000

Source: Bureau of Mines, War Production Board, and Department of Commerce.

[1] 98–99 percent aluminum ingot in 1930 and 99 percent plus for other years. Since December 1942, price applies to virgin pig.

[2] Excludes scrap and secondary aluminum for years 1939 and later.

[3] Figures include withdrawals from producers' stocks of 31,443 tons in 1939; 30,187 tons in 1940; 55,320 tons in 1944; and 26,334 tons in 1946; and additions to producers' stocks of 12,232 tons in 1941; 5,502 tons in 1942; 60,787 tons in 1943; 26,224 tons in 1945; and 827 tons in 1947. In 1944, the Metals Reserve Company added 73,555 tons to the Government stockpile and in 1945, 100,302 tons; in 1946, Metals Reserve disposed of 113,990 tons and in 1947 47,560 tons.

[4] Figures do not include withdrawals or additions to inventories.

[5] Not available.

[6] Sales.

[7] Preliminary.

[8] Estimated.

APPENDIX 3

ALUMINUM COMPANY OF AMERICA,
Pittsburgh, Pa., April 23, 1948.

DR. PAUL J. RAVER,
Administrator, Bonneville Power Administration,
United States Department of the Interior, Portland, Oreg.

DEAR DR. RAVER: As you state in your letter of April 16, 1948, it would seem essential that any survey of additional power requirements should adequately recognize power so badly needed for the expansion of the aluminum industry. You ask our opinion as to the minimum amounts of additional power which should be made available to the entire aluminum industry in each of the years 1948 to 1952, inclusive, in the Pacific Northwest in order to meet the demand for aluminum under peacetime conditions, as well as our estimate of how much

additional power Alcoa itself would probably need in the Pacific Northwest during this same period.

Considering first the power required for the reduction of smelting of aluminum, I am sure it is recognized by all who are in any way familiar with the aluminum industry that the present capacity for aluminum production in the United States of approximately 1,250 million pounds per year is grossly inadequate. The true market requirements are somewhat confused due to the shortage and constantly increasing prices of competing metals and materials. However, it would seem that an estimate of requirements for normal domestic markets and normal exports for 1948 would probably be about 1,800 million pounds. On a most conservative basis these requirements should grow to not less than 2 billion pounds for 1952.

On the basis of these estimates the domestic aluminum industry is short 550 million pounds of production in 1948 and this shortage will increase to 750 million pounds in 1952. Converting these to power requirements, the 1948 shortage is approximately 550,000 kilowatts and the 1952 shortage 750,000 kilowatts.

While some of this additional power needed by the industry for the production of aluminum may be made available in other sections of the country, the potentialities of the Northwest for the supplying of power at a price which can be paid by the aluminum industry are so much greater than for any of the other sections of the country that it seems to me rather obvious that you in the Northwest have an opportunity to obtain the greater part of this expansion. It would be my opinion that you certainly should prepare for at least half of it and I believe it would be more realistic for you to expect not less than two-thirds of it.

* * * * * * *

You will of course recognize that this analysis and these forecasts are merely our best opinions. We are glad to give them and hope they will be helpful not only in solving some of your own problems but also in solving the major problem confronting the aluminum industry, namely, the availability of power for the much needed expansion of that industry. Inasmuch as this analysis is based on peacetime requirements, it is obvious that the problem the aluminum industry faces of adequate expansion for emergency defense requirements is an enormous one. As you state in your letter of April 16, that is to receive separate consideration.

Very truly yours,

I. W. WILSON, *Vice President.*

ALUMINUM INDUSTRY

Section V. Releases of the Office of Defense Mobilization relating to aluminum, electric power, and other expansion goals

(1) Release of August 11, 1955, Suspending 38 Goals

Executive Office of the President,
Office of Defense Mobilization,
Washington 25, D. C.

For immediate release Thursday, August 11, 1955.

Arthur S. Flemming, Director of Defense Mobilization, signed today a Defense Mobilization order suspending the issuance of certificates of necessity for a wide variety of materials, equipment, and facilities.

At the same time he ordered the closing of 19 expansion goals, which brings to 167 the number of expansion goals closed since December 3, 1953. A total of 225 goals had been established. Mr. Flemming said that a review just completed of the 19 goals indicates that there are sufficient facilities or capacity to meet defense needs in these areas and that all pending applications are being denied.

The order—DMO–VII–6, supplement 1—becomes effective immediately.

Under suspension is a total of 38 expansion goals covering, among others, such items as commercial carrier aircraft, electric power, primary aluminum facilities, freight cars, and petroleum.

The 38 suspended goals are now being reviewed to determine whether adequate productive capacity exists to meet defense mobilization needs. When the review is completed the goals will either be reopened or closed. Meanwhile, there will be no further processing of pending applications for certificates of necessity nor of new applications which may be received.

Unchanged at this time by Mr. Flemming's order is a total of 20 expansion goals which, pending review, will remain open because of their direct defense relationship. He emphasized that a review will be made in the case of each of these goals after the review of suspended expansion goals has been completed.

Mr. Flemming said he suspended the goals in order to prevent inequities from developing while the review is being made. It has been underway since early June when ODM called upon agencies concerned with mobilization for recommendations regarding the open expansion goals.

The new Defense Mobilization order does not affect the minerals exploration program which is being carried out by the Department of Interior. Under that program the Government advances funds to finance a portion of the costs for private prospectors who are seeking new domestic sources of minerals and metals important to national defense.

The attached order lists the closed, suspended, and open goals on which action was taken today.

VII–Prod–DMO–6
Supplement 1
August 11, 1955

Executive Office of the President, Office of Defense Mobilization

Defense Mobilization Order–VII–6

SUPPLEMENT 1

Subject: Expansion goals.

By virtue of the authority vested in me by Executive Order 10480 of August 14, 1953, the following is hereby ordered in connection with expansion goals and certificates of necessity issued pursuant to sections 124A and 168 of the Internal Revenue Code:

70669—56—pt. 2——12

1. *Closed goals.*—The issuance of certificates of necessity shall be discontinued immediately in connection with the expansion goals included in list I attached and all other goals previously closed.

Applications for certificates of necessity currently pending in these closed goal areas shall be denied immediately. Such applications received hereafter shall be rejected immediately.

2. *Suspended goals.*—The issuance of certificates of necessity shall be suspended immediately in connection with the expansion goals included in list II attached. Applications for certificates of necessity currently pending in these suspended goal areas together with any such new applications received hereafter shall be held in suspension until a decision is announced either to open or to close the goals involved.

3. *Open goals.*—The issuance of certificates of necessity shall continue in accordance with the present or appropriately revised terms of the individual expansion goals included in list III attached and in accordance with regulations and policies heretofore or hereafter established by competent authority.

4. *General provisions.*—Applications for tax amortization which do not fall within the scope of an open or suspended goal shall be denied. Future decisions to open, suspend, close or otherwise modify expansion goals shall be accomplished by further supplements to this order.

5. This order shall take effect on August 11, 1955.

OFFICE OF DEFENSE MOBILIZATION,
ARTHUR S. FLEMMING, *Director.*

LIST I.—*Closed*

Goal No.	Title	Delegate agency
151	Asbestos, chrysotile	Interior.
119	Barite	Do.
118	Beryl	Do.
19	Chromite, metallurgical	Do.
21	Chromite, refractory	Do.
133	Coal, Territory of Alaska	Do.
11	Columbite and tantalite ore	Do.
197	Compressed gas cylinders	Commerce.
165	Fluorspar, acid grade	Interior.
12	Lead	Do.
14	Manganese ore, metallurgical	Do.
59	Methanol (synthetic)	Commerce.
151	Molybdenum	Interior.
34	Portland cement	Commerce.
185	Rare earths	Interior.
33	Tires (specific types)	Commerce.
18	Tungsten	Interior.
211	Wide flange structural shapes	Commerce.
22	Zinc	Interior.

LIST II—*Suspended*

Goal No.	Title	Delegate agency
148	Aircraft, commercial	Commerce.
220	Airport facilities	Do.
222	Aluminum forging facilities	Do.
63	Aluminum, primary	Interior.
112	Antimony	Do.
92	Bauxite	Do.
20	Chromite, chemical grade	Do.
10	Cobalt	Do.
4	Coke, byproduct	Do.
83	Cryolite, synthetic	Commerce.
55	Electric power	Interior.
130	Electrolytic tinplate	Commerce.
68	Freight cars	ICC.
171	Gas utility industry, pipelines	Interior.
82	Glycerin	Commerce.
214	Grain-oriented steel sheets	Do.
204	Gray iron castings (3,000 pounds and over)	Do.
122	High-voltage switchgear	Do.
218	Inland waterway terminal facilities	ICC.
98	Inland waterway vessels (specific types)	Do.
132	Iron ore	Interior.
3	Iron ore, taconite	Do.
152	Locomotives, diesel	ICC.
96	Lumber and wood products (debarking and chipping facilities)	Commerce.
187	Manganese ore, battery and chemical grade	Interior.
216	Motor truck terminal and repair facilities	ICC.
90	Ore carriers, Great Lakes	Do.
113	Ore carriers, oceangoing	Commerce.
65	Petroleum	Interior.
219	Port facilities	ICC.
221	Railroad passenger cars	Do.
163	Rutile	Interior.
135	Railroad terminal and road facilities	ICC.
114	Special manufacturing facilities, metal cans	Commerce.
27	Tankers, oceangoing	Do.
121	Titanium metal	Interior.
78	Transformers, distribution	Commerce.
217	Warehousing and storage facilities	ICC.

LIST III—*Open*

Goal No.	Title	Delegate agency
207	Alkylate	Interior.
177	Aluminum sheet-producing and heat-treating facilities	Commerce.
56	Copper	Interior.
99	Heavy aluminum aircraft forgings	Commerce.
212	Heavy steel plates	Do.
206	Laboratories, research and development (defense)	Do.
198	Medical supplies and equipment	Do.
64	Mercury	Interior.
16	Nickel	Do.
225	Power facilities for military, atomic energy, and defense related needs.	Do.
224	Production facilities for military and atomic energy procurement.	Commerce.
176	Scientific instruments	Do.
178	Selenium	Interior.
76	Steam boilers	Commerce.
74	Steam turbines	Do.
181	Steel castings	Do.
134	Tapered aluminum sheet	Do.
215	Titanium melting facilities	Do.
223	Titanium processing facilities	Do.
91	Welded aluminum tubing	Do.

(2) RELEASE OF SEPTEMBER 22, 1955, ON THE CLOSING OF THE ALUMINUM EXPANSION GOAL

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF DEFENSE MOBILIZATION

For immediate release No. 434
September 22, 1955.

The primary aluminum expansion goal was closed today by Arthur S. Flemming, Director of Defense Mobilization, after consultation with members of the Defense Mobilization Board.

The goal, which called for annual capacity of 1,746,000 tons by 1955, was closed because capacity in place, under construction and planned will reach a total of 1,778,000 tons, exceeding the objective of the expansion goal by 32,000 tons.

Goals generally are closed whenever the total capacity—in place, under construction and planned—equals or surpasses stated objectives.

The anticipated capacity of 1,778,000 tons consists of 1,533,000 tons of capacity now in place; 65,000 tons under construction by the Aluminum Company of America; and planned expansion of 180,000 tons, of which Harvey Machine Co., Inc., plans 54,000 tons, Olin-Mathieson Chemical Corp. 60,000 tons, and Alcoa 66,000 tons.

The Alcoa expansion program is being undertaken by the company without Government assistance. Certificates of necessity permitting rapid tax amortization have been granted to Harvey and Olin-Mathieson, and are still in effect. Harvey also has a purchase contract which grew out of a letter of intent issued in May 1953 and recently, due to special circumstances, the Government agreed to provide Harvey with additional assistance if the company could not obtain private financing.

Mr. Flemming said anticipated total capacity, which does not include tentative plans by other companies, appears sufficient to meet current stockpiling and defense programs as well as the needs of the military, military supporting facilities and the essential civilian economy in the event of a defense emergency.

Government assistance for creating additional capacity, Mr. Flemming said, therefore no longer is warranted and applications on file for necessity certificates will be denied. Should anticipated expansion not materialize, the ODM Director said the goal would again be reviewed and reopened if necessary.

Of a decision is made to reopen the goal applications now pending will be considered in the order they were filed. Mr. Flemming said also that a company's pending application for a certificate of necessity would not be prejudiced if it had started construction of a facility and the goal subsequently was reopened.

Mr. Flemming stated that, as has been the case in the past when goals have been closed, any firm that feels that the closing of the goal has resulted in its being accorded inequitable treatment, may file a statement setting forth its grounds for such a conclusion. Such a statement will be given consideration and if equitable relief is called for it will be granted.

Rapid tax amortization and other authorized Government assistance have been made available when such assistance was found to be the incentive necessary to bring about the building by private enterprise of capacity required to overcome deficits in mobilization production facilities.

With Government assistance production of the industry has doubled since 1950. In addition to meeting defense needs the civilian economy has benefited from increased supplies of the metal.

Mr. Flemming noted that the present tight aluminum supply stems almost entirely from unprecedented civilian demand occasioned by new uses for the metal and the high level of civilian industrial activity. The problem of meeting civilian demand, he said, obviously is the responsibility of private enterprise.

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(3) RELEASE OF SEPTEMBER 29, 1955, ON THE REOPENING OF 11 EXPANSION GOALS

EXECUTIVE OFFICE OF THE PRESIDENT, OFFICE OF DEFENSE MOBILIZATION

For immediate release, Thursday, September 29, 1955. No. 439

Reopening of 11 and the closing of 25 expansion goals of the 38 suspended August 11 was announced today by Arthur S. Flemming, Director of Defense Mobilization. Of the two other goals iron ore taconite remains on the suspended list while the primary aluminum goal was closed September 22.

One of the reopened goals covering the petroleum field is being reissued as 2 separate goals, bringing to 33 the number of expansion goals still in force.

Of the 33 open goals, 21 relate to production facilities, 7 cover materials, 4 deal with transportation and 1 with research laboratories.

The actions taken were based on a review by ODM of delegate agencies' recommendations concerning the availability of facilities, equipment and materials for full mobilization requirements and conform to a policy—Defense Mobilization Order III–1, Supplement 1—issued today concerning the establishment of expansion goals.

Since the inception of the program in 1951 there have been issued 226 expansion goals outlining gaps in the mobilization base. The objectives set were attained in more than 150 of the 192 closed goals, the balance having been closed because of a downward revision in requirements or because experience has demonstrated that the tax amortization incentive has not resulted in any appreciable progress in the direction of reaching the goal.

Ten of the reopened goals were revised as follows:

The commercial carrier aircraft goal was increased to 900 aircraft for which firm orders must be placed by December 31, 1955. The original goal was for 600 aircraft on which production was to begin before June 30, 1955.

The domestic petroleum goal which called for refining capacity of 8,750,000 barrels a day by January 1, 1956, was increased to 9 million barrels a day by January 1, 1957.

Applications for necessity certificates on the electric power, high-voltage switchgear, and power and distribution transformer expansion goals must be filed by the close of business December 31, 1955, to be eligible for consideration.

The freight-car goal will cover those cars for which construction is authorized or firm orders placed by December 31, 1955.

The target date for the expansion goal of manganese ore of battery and chemical grades was extended to December 31, 1955.

The expansion goal for domestic production of synthetic glycerin was increased 57 million pounds to 185 million pounds of annual capacity for which applications for necessity certificates must be filed by June 30, 1956. No change was made in the natural glycerin segment of the goal.

The expansion goal for the supply of chemical grade chromite for chemical use was set at 225,000 long tons of annual production to be reached by December 31, 1956.

The rutile expansion goal was raised 10,000 tons to 35,000 tons to be achieved by December 31, 1955.

Five goals on the open list were revised as follows:

The alkylate goal was revised to provide 55,000 barrels of productive capacity a day by January 1, 1957, an increase of 25,000 barrels a day.

The research and development laboratory expansion goal was confined to cover only those laboratories having contracts directly relating to defense research and development. The construction of such laboratories must be completed by December 31, 1956.

The target date for the supply of mercury was advanced to December 31, 1957.

The selenium expansion goal was confined to primary domestic sources of supply and the target date advanced to June 30, 1958.

The target date for the supply of copper was extended to December 31, 1955.

Applications for necessity certificates received by ODM after August 11 on any of the goals closed today will be denied. Those pending on August 11 will be denied unless they qualify under the following rules:

(*a*) Any application filed more than 60 calendar days prior to the date of suspension or closing of the applicable goal, whichever is earlier, shall be considered for certification under the terms and conditions of the expansion goal involved.

This means that applications will be eligible for certification on the basis of priority of filing and other factors to the extent of the unfilled portion of the goal at the time of suspension.

(*b*) Any application filed within 60 calendar days prior to the date of suspension or closing of the applicable expansion goal, whichever is earlier, shall be considered for certification only when it is determined by the Government that an application covering similar facilities, filed on the same or a later date, was certified.

The following table indicates the pending applications, filed with ODM either earlier than or within 60 days of August 11, on the goals closed today:

Goal No.	Title	Filed within 60 days prior to Aug. 11		Filed more than 60 days prior to Aug. 11	
		Number	Amount	Number	Amount
			Thousands		*Thousands*
220	Airport facilities	2	3,700	0	
92	Bauxite	3	19,150	0	
4	Coke, byproduct	2	32,400	7	55,244
83	Cryolite, synthetic	1	1,366	0	
130	Electrolytic tin plate	1	10,200	5	88,600
171	Gas utilities industry, pipelines	7	28,162	12	128,084
214	Grain-oriented steel sheets	1	375	0	
204	Gray iron castings	0		0	
218	Inland waterway terminals	1	83	0	
98	Inland waterway vessels	26	9,510	1	425
132	Iron ore	3	49,101	5	61,643
152	Locomotives, diesel	36	143,937	2	9,308
96	Lumber and wood products (debarking and chipping facilities)	2	248	4	1,285
216	Motortruck terminal and repair facilities	14	5,712	6	1,299
90	Ore carriers, Great Lakes	0		0	
113	Ore carriers, oceangoing	0		0	
65–c	Natural gas liquids	10	19,318	4	7,833
65–d	Petroleum pipelines	15	44,588	15	162,996
65–e	Petroleum storage	40	48,970	14	7,883
219	Port facilities	0		1	378
221	Railroad passenger cars	4	19,355	2	13,836
135	Railroad terminal and road facilities	70	74,221	21	24,219
114	Special manufacturing facilities, metal cans	2	797	0	
121	Titanium metal	2	12,550	1	24,842
217	Warehousing and storage facilities	4	3,333	1	175

The attached order, DMO VII–6, supplement 3, lists the goals closed today and all of the open goals.

(4) ODM Staff Paper, January 11, 1956, Reviewing the Electric Power Expansion Goals

Idaho Power Co.—Hydroelectric Projects on the Snake River at Oxbow and Brownlee, Oregon and Idaho

I. EXPANSION GOAL NO. 55—ELECTRIC POWER

In 1950 the Defense Electric Power Administration was created in the Department of the Interior to "exercise defense control and expansion functions with respect to the Nation's power industry." Its functions included the "programing of power supply expansion."

The Defense Electric Power Administration's first major undertaking in cooperation with an Electric Power Advisory Committee, appointed by the Administrator of the Defense Production Administration, was a detailed study to determine the probable peak powerloads for the years 1951 through 1954 and the generating capacity needed to meet such requirements.

In 1950, after the outbreak of hostilities in Korea, electric power consumption began to increase rapidly, and the peakload in 1950 was 14 percent above the peak of the previous year—by far the largest single year increase in the history of the industry up to that time. This unprecedented load increase lowered the industry's margin of reserve to 6 percent, considered by the Defense Electric Power Administration to be below that necessary for maintenance and emergency outages of equipment. In December 1941 reserves margin for the country as a whole were 22 percent.

As a result, the Defense Electric Power Administration in 1951 developed a power expansion program. The objectives of the program were summarized by the Defense Electric Power Administration as follows:

1. To serve the rapidly increasing civilian load without curtailment.
2. To serve the superimposed defense program.
3. To restore an adequate capacity margin for maintenance and emergency outages, and for unscheduled additions to load.

Its study disclosed that the power consumers who planned sharp increases in their requirements were the Atomic Energy Commission and certain industries

in the process of major expansion, such as aluminum, steel, chemicals and various nonferrous metals. The estimated expansion for the Atomic Energy Commission was 1,900,000 kilowatts. For aluminum expansion 1,500,000 kilowatts was needed, of which around 80 percent would be generated by the aluminum industry itself.

As a part of the study, private and public power organizations were asked to report power expansion projected for the years 1950, 1951, and 1952. It was found that, before the outbreak of hostilities in Korea, a 17 million kilowatt expansion program was planned for the 3 years. It was then agreed to by the combined staff of the Defense Electric Power Administration and the Defense Production Administration that a 27 million kilowatt expansion would be needed through 1953. The difference of 10 million kilowatts indicated the increase needed to meet defense requirements and the resulting acceleration of outlays of private capital.

To meet the power demands of defense mobilization and the expanding economy by the end of 1953, a 3-year 27 million kilowatt expansion program was considered a minimum by the Defense Electric Power Administration—7 million increase in 1951, 9½ million in 1952, and 10½ million in 1953.

The Defense Electric Power Administration's Report, dated December 13, 1951, which carried the required expansion through 1954, showed a need for an increase in power facilities of around 30 million kilowatts during 1952, 1953, and 1954 over the anticipated base of 75 million kilowatts at December 31, 1951.

In October 1951, the Defense Production Administrator had appointed the Electric Power Advisory Committee under the chairmanship of Edward W. Morehouse, vice president of the General Public Utilities Corp., to "inquire into the country's requirements for electric power and energy for defense and other purposes."

On December 31, 1951, the Morehouse committee reported to the Defense Production Administration "the 30 million kilowatts of new capacity now planned by the electric systems of the country to meet these demands, including necessary reserves, is not in the aggregate excessive. If anything, the total capacity is too small."

About the same time as the Morehouse committee was appointed, the Joint Committee of the Congress on Defense Production, headed by Senator Maybank ordered an investigation of the electric power program to determine its adequacy to support defense mobilization needs, and on January 15, 1952, the committee reported widespread difficulties regarding allocations of materials for increasing the electric power production capacity.

After careful consideration of the Defense Electric Power Administration and the Morehouse reports, the Defense Production Administration's staff recommended to the Administrator that a goal be set to provide incentive for a 32 million kilowatt expansion for the 3 years through 1954. This was partially based upon classified information regarding the expansion of the Atomic Energy Commission's plant.

Accordingly, on March 19, 1952, expansion goal No. 55 for electric power was established at 107 million kilowatts by December 31, 1954, an increase of 32 million kilowatts above the December 31, 1951, capacity of 75 million. This action was taken by the Deputy Administrator of the Defense Production Administration for Program and Requirements. The goal called for an expansion of approximately 9 million kilowatts during 1952, 11 million in 1953, and 12 million in 1954.

On August 26, 1952 expansion goal No. 55 was revised to provide for 117 million kilowatts by December 31, 1956, with expansion scheduled as follows:

Year:	*Million kilowatts*	Year—Continued	*Million kilowatts*
1952	7	1955	12
1953	10	1956	1
1954	12		

This revision provided for 42 million kilowatts above the December 31, 1951 capacity of 75 million kilowatts, an expansion of 56 percent in 5 years. This action was also taken by the Deputy Administrator of the Defense Production Administration for Program and Requirements.

From the beginning of the program a major objective was to encourage utilities to install blocks of capacity which would exceed their normal needs, that is, to build generating capacity in advance of the time required to meet their ordinary load growth patterns, and thus provide a mobilization reserve.

During November of 1953 the electric power program was reviewed by the staff of ODM in conjunction with the staff of the Defense Electric Power Administration. At that time the expansion goal still called for 117 million kilowatts by December 31, 1956. Up to November 1953 certifications for tax amortization under the goal were as follows:

Amount certified	$4, 227, 638, 000
Amount amortized	$1, 902, 150, 000
Capacity in kilowatts	21, 000, 000

The Defense Electric Power Administration reported its belief that the requirements of expansion goal No. 55 as scheduled would be met by the end of 1956 and recommended its closing at that time.

Since the expansion goal covered a period of 3 years in the future—1954, 1955, and 1956—and it was evident that renewed attention should be given to new basic mobilization assumptions and defense requirements resulting therefrom, it was my decision to suspend the goal rather than close it. This action was taken on December 3, 1953, by Defense Mobilization Order VII–6.

After suspension of the goal the staff of ODM worked with the staff of the Interior Department and made a review of the situation. This afforded an opportunity to watch the development of the actual expansion of capacity which was scheduled and certified under the expansion goal prior to its suspension. Agreement was reached with the Department of the Interior on basic assumptions for mobilization readiness and the programing period was extended from the end of 1956 to the end of 1958. This review was completed in early April of 1955. At that time, the capacity for electric power projected to the end of 1958, taking into account normal growth demand projections and margins for normal operations, amounted to approximately 135 million kilowatts. That projected capacity was not sufficient for mobilization needs. Accordingly, on April 15, 1955, expansion goal No. 55 was reopened and established at 150 million kilowatts by December 31, 1958. The reserve capacity over peak-load estimates provided by this full mobilization objective was about 24 percent. This objective was designed to take care of requirements for full mobilization as contrasted with previous efforts to cover only partial mobilization requirements.

On August 11, 1955, expansion goal No. 55 was again suspended under Defense Mobilization Order VII–6, supplement 1, as part of a general review of all goals. The goal was again reopened on September 29, 1955, with the modification that applications for tax amortization must be filed by December 31, 1955, in order to be eligible for certification. Certifications under the reopened goal are as follows:

Amount certified	$1, 198, 766, 000
Amount amortized	$494, 100, 000
Capacity in kilowatts	5, 900, 000

Applications for tax amortization under the electric power goal are subject to the National Dispersion Policy. Under this policy electric power projects are not eligible for tax amortization unless they are located outside congested urban areas as determined by the Department of Commerce and away from major military installations and key defense industrial facilities as determined by the Department of Defense.

The sole objective of the expansion goal is to encourage the investment of private capital in electric power facilities to increase total capacity by December 31, 1958, to a level sufficient to provide a margin for national defense in the event of mobilization.

II. IDAHO POWER CO. APPLICATIONS

In August 1953, the Idaho Power Co. filed applications TA–26407 and TA–26500 for necessity certificates for two proposed power developments on the Snake River at Oxbow and Brownlee, Oregon–Idaho. Total cost is estimated at $103,081,970. It has been the practice of the certifying officer to postpone final action on such applications until a license has been issued by the Federal Power Commission.

On August 4, 1955, the Federal Power Commission granted licenses covering the two projects; construction of the Brownlee unit to start within 1 year, and Oxbow within 4 years. After issuance of the licenses by the Federal Power Commission, the applicant requested that final action be taken on the applications. Accordingly, the Department of the Interior was requested to submit its recommendation.

On October 25, 1955, the Department of the Interior recommended to the Office of Defense Mobilization the issuance of necessity certificates on both projects for the following reasons:

"The Oxbow and Brownlee hydro projects of the Idaho Power Co. will contribute to the power supply shortage in the Pacific Northwest. Reserves in the west group are materially lower than what is considered adequate. Under adverse water conditions there are no reserves and the dropping of interruptible loads becomes necessary to meet firm-load commitments.

"The minimum stream flow of the Columbia and Snake Rivers occur at different times during the year. The reserve water storage at Brownlee and the 230 kilovolt transmission facilities integrating Oxbow with the west group can make a substantial contribution to overcome the indicated deficits in the west group with both direct transfer of power and downstream of storage water from the Brownlee project.

"The Idaho Power Co. has been purchasing capacity from the Utah Power Co. The Utah Power Co. is compelled to withdraw this capacity to Idaho in order to meet their own power requirements.

"The normal load growth and the new power requirements of the Atomic Energy Commission along with the loss of purchased capacity from the Utah Power Co. makes it essential for the Idaho Power Co. to add new generation to their system. This will, in effect, add materially to the capacity needed to meet the requirements of the present defense industries and any new defense loads that might be located in the Pacific Northwest."

In addition to the data contained in the recommendation from the Department of the Interior the following pertinent facts have been established:

(*a*) Both applications were filed within the time limit specified in the goal.

(*b*) Applicant must comply with the provision of the goal that the added capacity to deliver power will be available by December 31, 1958, or the certificate will be invalid.

(*c*) The site of the power development is outside congested urban areas and away from major military installations and key defense industrial facilities.

(*d*) The capacity to be added by these projects fits within the total quantity covered by the goal.

(*e*) Other hydroelectric power developments have been certified in the past when all requirements of the pertinent goal were satisfied.

Accordingly, both applications are certifiable under goal No. 55, "Electric power."

III. GENERAL OBSERVATION

Opinion No. 264 of the Federal Power Commission issued December 4, 1953, on the matter of "treatment of Federal income taxes as affected by accelerated amortization" contains the following pertinent statement:

"While it is clear to us that Congress, by the enactment of this law, did not intent to make gifts to the customers of the public utilities and natural-gas companies which received certificates, it is equally clear that Congress did not intend to provide a temporary fund to these companies which could be diverted to the payment of dividends to their shareholders. Since the possession of necessity certificates is essentially a deferment of tax liability, the accruals for taxes in excess of those actually paid should logically be treated, not as free and unrestricted income, but earmarked to provide for the future of such liability.

"Consequently, we will take all steps necessary to insure that provision is made for meeting the deferred tax liability and the temporary savings produced by the deferral of taxes are not used, directly or indirectly, for the payment of dividends, but are used for the purposes intended, namely, to aid in the construction of the facilities described in the certificate which were deemed by our Government to be necessary to the national defense."

IV. QUESTIONS AND ANSWERS

The following questions have been raised in objection to the issuance of necessity certificates for the two projects:

1. A court suit seeking review of the Federal Power Commission's licensing order makes it doubtful that either of the two projects will be constructed within a 5-year period—if at all.

Expansion goal No. 55 requires that projects certified under that goal will be in operation by December 31, 1958. Applications which give no assurance of completion by December 31, 1958, are subject to denial. A condition attached

to certificates that are issued may invalidate the certificate if the facilities are not in service by December 31, 1958.

2. The project designs and costs are not known and cannot be presented to ODM with any degree of reliability.

Applications for necessity certificates which are filed with us are based upon estimated costs. Certificates are subject to final revision and amendment when actual costs have been determined. The fact that actual costs are not know by an applicant at the time of filing is no deterrent to the issuance of a necessity certificate.

3. ODM regulation 1 provides that a facility, to qualify for a necessity certificate, must produce a product required for national defense during the emergency period. These projects were planned to meet normal load growths within its service area.

Expansion goal No. 55 covers power expansion to be undertaken by any class I utility. Most of the applications filed by such utilities are for the expansion of generating capacity, and when favorably recommended by the Department of the Interior as within the purview of the expansion goal, are normally certified by this office as being in the interest of national defense. To relate the specific contributions of each project to plants which it may supply several years later would be difficult in view of interconnections and the attraction of defense industries to areas of adequate power.

4. You announced on September 23 that you would no longer grant certificates to the steel and aluminum industries. What logic underlies resumption of accelerated amortization for private power and suspension of it for steel and aluminum?

Mobilization readiness requires an overall balance in productive capacity and supply, which must be evaluated individually. There are many industries, necessary for war production, which have been offered no incentive to expand. The review of these three industries, conducted with the aid of the delegate agencies involved and the Defense Mobilization Board, provided the necessary data to determine that the need for expansion in electric power generating capacity is sufficiently urgent to warrant tax amortization as an incentive.

5. If Idaho Power is given 65 percent accelerated amortization on its $103,082,000 expenditure it would result in Federal tax savings of $31,357,000 during the first 5 years of operation of Brownlee and Oxbow which constitutes an interest-free loan to Idaho Power.

The company saves interest on deferred tax payments, which amount it might otherwise have to borrow. The Government pays interest on borrowed money to make up for the tax loss. Starting the sixth year the Government gets increased tax revenue because smaller deductions are available to the company and, at the end of the useful life of the facilities, the Government has received the deferred taxes. The net cost to the Government is the difference between the interest it pays on the amount of the interest-free loan and the interest it saves on the greater tax payments which start with the sixth year.

ALUMINUM INDUSTRY

Section VI. Memorandums leading to the third Government aluminum-expansion program prepared by Samuel Anderson, Deputy Administrator for Aluminum, Defense Production Administration

(1) Memorandum on Aluminum

February 26, 1952

[Declassified]

(Background material for meeting)

The purpose of this memorandum is to present background material for a comprehensive discussion of the aluminum program. It will not contain highly classified information, although certain classified material will be presented at the meeting.

THE PRESENT EXPANSION PROGRAM

The present aluminum-expansion program consists primarily of the construction and expansion of aluminum-reduction plants, together with additional alumina and bauxite facilities. The aluminum-reduction facilities now under construction or to be constructed pursuant to this program are as follows:

Location	Owner	Ultimate annual capacity (short tons)	Expected starting dates of potlines			
			1	2	3	4
Wenatchee, Wash	Alcoa	85,000	June 1952	July 1952	December 1952	December 1952.
Rockdale, Tex	do	85,000	September 1952	October 1952	October 1953	October 1953.
Point Comfort, Tex	do	35,000	March 1952	May 1952		
Jones Mills, Ark	Reynolds	23,000	July 1951	July 1951	July 1951	July 1951.
Troutdale, Oreg	do	2,000	October 1951	October 1951	October 1951	October 1951.
San Patricio, Tex	do	80,000	March 1952	May 1952		
Longview, Wash	do	20,000	July 1952	July 1952	July 1952	July 1952.
Arkadelphia, Ark	do	55,000	January 1953			
Chalmette, La	Kaiser	100,000	December 1951	February 1952	May 1952	June 1952.
Do	do	100,000	October 1952	November 1952	February 1953	March 1953.
Spokane, Wash	do	20,000	July 1952	July 1952	July 1952	July 1952.
Tacoma, Wash	do	8,200	do	do	do	Do.
Kalispell, Mont	Anaconda	50,000	April 1953	May 1953		

Based upon the above, our present operating forecast of the projected supplies of aluminum, may be summarized as follows:

Estimated metal supplies by quarters (Not allowing for melt losses or distribution timelags)

[Thousands of short tons]

Quarters	Estimated production from—		Estimated net imports [1]	Estimated old and new scrap supplies	Total aluminum primary and secondary supply
	Old plants	New plants			
4th quarter 1951 (actual)	209.9	7.3	22.3	61.2	300.7
1st quarter 1952 (estimated)	213.4	12.5	26.2	62.4	314.5
2d quarter 1952 (estimated)	215.0	31.5	25.1	61.5	333.1
3d quarter 1952 (estimated)	217.5	68.6	32.4	68.0	386.5
4th quarter 1952 (estimated)	194.6	79.7	30.2	70.7	375.2
1st quarter 1953 (estimated)	190.3	105.7	25.1	77.8	398.9
2d quarter 1953 (estimated)	218.1	148.6	11.6	80.8	459.1
3d quarter 1953 (estimated)	218.4	158.0	32.4	80.5	489.3
4th quarter 1953 (estimated)	209.4	143.3	32.4	87.4	472.5

[1] After deducting repayments to Britain.

The production estimates shown in the above table include production from certain facilities using high-cost steam power subsidized by the United States Government. The amount of metal from these sources varies considerably depending upon the season of the year, but is expected to be of the order of 110,000 short tons for the calendar year 1952. When aluminum becomes more freely available, it is unlikely that this production will be continued. The estimates are also made on the assumption that in the Pacific Northwest, production dependent on interruptible power will be lost to the maximum possible extent in the winter of 1952–53, and half of such production in the winter of 1953–54. This may be an unnecessarily pessimistic assumption. It is expected that a considerable amount of this interruptible hydro power will be firmed up in 1954 or later.

Import figures include the acquisition during 1951 and 1952 of 27,500 short tons of Canadian aluminum diverted from shipments to Britain and the repayment of this metal, mostly in the first 6 months of 1953. They also include minor amounts of high cost metal imported from other sources.

The expansion program is being expedited to the maximum feasible extent with high priorities. In several cases the operators have agreed to purchase interim power so that potlines can be started before the captive powerplants have been completed. In one case (Alcoa's Rockdale, Tex. plant), however, the third and fourth potlines will be ready for operation approximately 9 to 10 months prior to the projected operating date of the generators necessary to service the lines. Insufficient interim power is available to operate these lines during that waiting period.

Construction of the Anaconda plant at Kalispell, Mont., cannot begin until April 1952 because of weather conditions, but it is hoped that the plant as a whole can come into production in May 1953. The construction of one other plant is just starting—that of Reynolds in Arkansas.

Experience suggests that the projected production schedules of the new plants shown in the above table, may be subject to some downward revision if serious procurement bottlenecks not presently known, should develop during construction. For the purpose of this memorandum, however, it is believed that the production forecasts are sufficiently reliable.

At the meeting, a visual presentation of the projected supply will be made.

REQUIREMENTS

Military requirements (nonwar)

Requirements for direct military and defense uses of aluminum are now being restudied in the light of recent Presidential budgetary decisions. It will be some weeks before the elaborate calculations comprising this restudy will have been completed. Nevertheless, certain preliminary figures have been made available, which are believed to be within a working margin of accuracy. Although these highly classified figures cannot be included in this memorandum, they will be

shown graphically at the meeting. They suggest that the military requirements for aluminum for 1952 and 1953 may not rise from present levels of military procurement by any large amount but will remain comparatively stable and probably extend out through 1954 at something like the present level.

For our purposes, in attempting to judge the more distant future, furthermore, we have had to make certain assumptions with respect to the general level of military demands for aluminum after the present planned programs of the Air Forces and the other armed services have been completed. This has had to be done on the basis of certain fairly arbitrary assumptions as to the amounts of aluminum which may be necessary to take care of nonwar attrition of military weapons, especially airplanes, as well as providing for replacements due to obsolescence. This variety of forecasting is hazardous. It will be shown graphically at the meeting. These assumptions, however, could easily be upset in either direction by future congressional action or by international events causing changes in military plans. Military demands for aluminum must constitute the senior claim against supplies of the metal.

In studying military requirements for aluminum, it has been the practice of the defense agencies to attempt to estimate a supplemental requirement generated by military or defense orders for so-called B products. This section of the requirement consists of the aluminum content of such items as electronic equipment, automotive, and tank purchased parts and a vast number of other items. Available data does not permit of a very accurate measurement of the magnitude of this portion of the military demands. There is, however, no question of their importance which is no less urgent than the demand for aluminum allocated for A products under the CMP system. Based upon a consensus of opinion, we have selected a figure of 20 percent of direct military stated requirements as a measurement of the amount of aluminum which will be required for military B products.

Military requirements (war basis)

The full mobilization plans in the event of war are, at present, being restudied. The last series of calculations is believed to be out of date and unrealistic in the light of post-Korean developments. Accurate requirements for materials, properly time-phased, on a feasibility tested mobilization program will not be available for a number of months. Based on available material, however, certain rough assumptions can be made as to the magnitude of the demand for aluminum in the event of full industrial and military mobilization. These assumptions can be graphically illustrated at the meeting in order to present an impression of the impact against the aluminum system which might be expected in case of war. It is obvious that a large number of uncertainties must necessarily surround any assumptions made at this time.

Civilian requirements

In attempting to devise sound policy for the future, it is not only necessary to judge the probable magnitude of the military requirements (on the basis of both limited and full mobilization), but also to study the probable future demands for aluminum from strictly civilian sources. In judging both types of demand, furthermore, it is necessary to attempt to assess the future from both a near term and a long term viewpoint.

A number of studies have been made of the probable demand for aluminum for nonmilitary purposes over an extended period of time in the future. The President's Materials Policy Commission is presently engaged in this type of forecasting with respect to over 70 important materials. The Commission has not yet finalized its views on the probable demand for aluminum in 1976.

We have developed certain material which may prove useful in judging the probable trend of the demand for aluminum for the next decade or so. A number of charts which appear to us to have some bearing on this matter, are attached hereto for such light as they may throw on the discussion of this subject.

In our thinking, we have been attracted by the usefulness of per capita consumption figures of various materials on the theory that the population of the United States is still rising on a reasonably predictable curve and that per capita figures thus disclose more clearly than the raw data, the significant trends in consumption. Per capita data also permits a more valid comparison in our opinion, between the trends of the past in other materials and the probable trends in the future of newer materials like aluminum.

The attached chart of the per capita consumption of aluminum seems to be a typical picture of a dynamic young material, the usefulness of which has grown and is continuing to grow on an increasingly wide front within our economic structure. It will be noticed that the per capita consumption doubled between

the years 1930 and 1937; doubled again between 1937 and 1942. It rose by approximately 30 percent between the years 1946 and 1950. It seems probable that the breaking out of hostilities in Korea in 1950 increased the per capita consumption of aluminum during that year beyond what it would have been had there been no Korea and no sudden buildup of the defense program. Our belief is that the consumption in 1950 would have been about 13½ pounds per capita, instead of almost 16, as was the fact.

In attempting to project the per capita consumption figures into the future, we have come to the conclusion that an optimistic prediction for the next decade might be at the average rate of 10 percent per annum. This would double per capita consumption in 7 years. Similarly, we have concluded that a conservative forecast would be an average annual increase in the per capita consumption of 5 percent. This would double per capita consumption in 13 years. These two assumptions are shown as extended trend lines beginning in 1950 on the attached chart.

In attempting to judge whether these forecasts are indeed optimistic or conservative, it appears to us that the following questions, among others, must be taken into consideration:

1. What would be the effect upon aluminum users or fabricators (both actual and prospective) of a conviction that aluminum, fabricated or unfabricated, would remain quite freely available in the future, under almost any conceivable nonwar conditions?
2. Would such conviction have a substantial effect on the plans of businessmen to utilize aluminum rather than some other material in designing their products?
3. Is the present price relationships between aluminum and other competitive materials a factor favoring aluminum and is this relationship likely to persist or change substantially in favor of or against aluminum? (See attached price chart.)
4. Would the existence of an appreciable supply of virgin aluminum from sources not engaged in fabrication be likely to stimulate substantially the consumption of metal by independent fabricators, with the accompanying sales effort of such independents to open up new markets for fabricated products?
5. What will be the effect of increasing knowledge of and market developments with respect to magnesium and titanium, both younger metals than aluminum?
6. What might be the effect of recent technological developments in very light alloy steels?
7. What could be the effect of substantial technological advances in the fabrication of aluminum; e. g., new and cheaper methods of making aluminum tubing?
8. Are the supply prospects for competitive materials factors which are likely to stimulate the consumption of aluminum quite apart from price considerations?

Very few of these factors are suspectible of accurate measurement. It is hoped, however, that these factors, as well as others of a comparable character, can be rather fully discussed at the meeting in attempting to arrive at a realistic judgment of the probable future growth in the per capita consumption of aluminum.

SUBSTITUTION OF ALUMINUM FOR COPPER

This subject has been discussed so widely and has been referred to so frequently by various governmental and nongovernmental entities that it seems worthwhile in this memorandum briefly to state the position of the defense agencies.

We have never taken the view that substitution of aluminum for copper should be promoted in any way inimical to the technical performance of equipment or plants or in cases where the economics of a substitution were clearly unattractive. During the current phase of the defense effort, both metals have been almost equally short. There have been numerous cases, however, where the substitution of aluminum for copper (e. g., bus bars in aluminum plants, high tension transmission and certain quasi-experimental uses) have appeared to be entirely acceptable technologically and attractive economically. In these cases, NPA and DPA have willingly authorized the use of aluminum in preference to copper because it was believed:

1. The substitution would probably take place under free market conditions for technical and economic reasons.
2. Since the accumulation of a large protective stockpile of copper appears to be almost impossible, and since the copper must come from overseas, to a considerable extent, the significance of maintaining the stockpile of copper as a protection against war, particularly submarine war, takes on a special significance.
3. While the current tightness in copper may eventually ease considerably through the additions of further supplies and a recession in the current demand,

particularly for industrial construction, it seems clear that supplies of aluminum over the long pull can more readily be made generously available, as contrasted with copper.[1]

We recognize that there is danger in pressing for the substitution of any one material for another unless the immediate requirements of national defense make such action imperative. There have been instances of this character, such as the necessity for the conservation of cobalt and nickel. We do not, however, regard the substitution of aluminum for copper as falling within this category. A number of recent studies which have been given considerable publicity, suggesting the possibility of substitution of aluminum for copper in such things as automobile radiators, should not be interpreted as reflecting any more than approval on the part of the defense agencies of any experimental work designed to lead to specific conclusions as to the most useful material in a particular case, taking into consideration long-run as well as short-run factors.

It is hoped the discussion of our future aluminum policy can be held within the framework of the principle that in the end, technical, commercial and price considerations should determine the use of materials. This principle need not, of course, disregard the need to judge the possibility of the future reappearance of serious shortages of any material.

STOCKPILE POLICY

The general stockpile policy of the Government with respect to most materials being stockpiled is to attempt to reach a goal estimated to be equal to the probable 5-year deficiency in the vent of all-out mobilization. In arriving at these policies, it has been necessary to make certain assumptions with respect to cutbacks of civilian uses of materials, potential losses at sea, the possibility of the loss of productive capacity within the United States and other imponderable considerations. In certain instances, it has also been necessary to examine the steps which might be available for increasing the supplies if and after war comes.

In the case of aluminum, no considerable stockpile of the metal has been acquired pursuant to the stockpile goals for a variety of reasons too well known to need repetition here. We are, therefore, experiencing a repetition of the position in which the United States found itself in 1941. At that time, the productive capacity of the country was approximately 440,000 tons of aluminum. To meet the needs of the war, the Government proceeded to build at a rapid pace and with high priorities, additional capacity of about 735,000 tons. Many of the plants were located uneconomically from the standpoint of power. After the war, capacity of 362,000 tons was dismantled for this reason.

Under precisely the same circumstances, we are engaged again in building additional aluminum facilities at a rapid pace with high priorities with severe strain upon the industrial resources of the country.

It is perhaps fair to say that the impact of a rapid buildup of a modern military program imposes percentagewise a heavier burden upon the supplies of aluminum than almost any other basic material in such general use (exceptions might be less all-pervasive materials such as nickel, cobalt).

The strain of having to add suddenly large production facilities for the production of aluminum during a partial or total mobilization period is substantial. It imposes a heavy burden on scarce materials, electrical equipment and on existing power resources. It has proved to be very expensive from the standpoint of the taxpayers, due to the necessity of providing Government funds or tax amortization privileges, not to mention high prices of labor and materials during such periods. The losses suffered to the Government and to the economy for these reasons during the war and during the current period, while not susceptible of accurate measurement, have certainly run into hundreds of millions of dollars in each case.

On the theory that the current crisis may not be the last to confront us, it is proposed that the United States Government stockpile policy with respect to aluminum be changed with a view to avoiding if possible a repetition of the two tragic experiences through which we have gone in the last decade.

It is specifically proposed that a new and special stockpile objective be established for aluminum at level of 4 million tons and that an aluminum policy be adopted designed to make probable within the next decade or so, the accumulation of a stockpile approaching this magnitude.

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[1] It has not been deemed necessary to reproduce and transmit herewith a number of interesting presentations of this proglem recently published, such as the address by Mr. Simon D. Straus before the Colorado Mining Association on January 31, and an interesting memorandum prepared by Mr. R. E. Dwyer, executive vice president, Anaconda Copper Mining Co., dated January 12, 1952.

Authorization to acquire a stockpile of up to 4 million tons of aluminum creates the possibility of the following benefits.

1. If acquired, the stockpile would make it possible to avoid breakneck expansion programs in the event of war and would permit the war needs to be evolved carefully and to be met with a greatly lessened impact on competing demands for manpower, materials, and other resources, including power.

2. A large stockpile would provide valuable insurance against destruction of power, cryolite, alumina and aluminum reduction facilities as a result of enemy action.

3. A large stockpile would make it possible to design into aluminum away from more critical materials on a temporary basis while the economy was being adjusted to a war basis.

4. Authorization to accumulate a large stockpile could be the most useful method possible of avoiding the serious economic, employment and financial consequences of an overestimation of the rate of growth in the civilian consumption of aluminum. It could, at the same time, justify a policy designed to make available to the civilian economy during nonwar periods generous supplies of metal without imposing grave risks of temporary embarrassment on the producers.

Actually the accumulation of a large stockpile of aluminum has already, in effect, been recognized by the terms of the present supply contracts with the builders of the new plants. These contracts provide, if fully availed of by the operators, for the purchase by the Government of up to about 3,400,000 tons. The principle has thus been established that the operators who were requested by the Government to construct the facilities for defense purposes should not be subjected to disastrous risks of unemployment and commercial failures in the event that the aluminum produced could not be sold because of fluctuations in the level of business. The proposal, therefore, does not establish a new principle, but only a pian to transform a passive protective commitment by the Government into a positive stockpile policy with a greater chance of being implemented.

5. Looked at strictly from the power standpoint, a stockpile of 4 million tons represents a stockpile of power equivalent to approximately 80,000 million kilowatt-hours. This is roughly equivalent to 16 percent of the expected kilowatt-hour generation in the United States in 1954. If the sudden demands for power on the advent of war were sufficiently critical, aluminum plants could be temporarily shut down to divert power to other needs. This conceivably could be a factor in the operation of atomic energy plants on a war basis.

PLANNED PRODUCTION

There is little point in authorizing the accumulation of a large stockpile of aluminum and the present supply contracts have limited significance unless there appears to be some possibility that a large stockpile might be acquired over a period of years. If it is sound policy for the Government to stimulate the production of aluminum in quantities sufficient to take care of estimated nonwar defense needs and rising civilian consumption, at whatever reasonable rate can be expected, it is manifestly inappropriate for the Government at the same time to attempt to withdraw from the market quantities of aluminum designed to fill up the stockpile except under conditions where the metal is not required for military or needed civilian requirements. Indeed, this has been the dilemma facing the stockpile management since World War II. Public support of a stockpile policy suggested herein, furthermore, could hardly be widespread unless it was accompanied by measures to satisfy, as a prior requirement, the ultimate civilian, as well as the necessary defense needs. The graphic presentation which will be made at the meeting, in our opinion, justifies the conclusion that the present expansion program, summarized earlier in this memorandum, is not likely to provide an adequate opportunity to accumulate a large stockpile even using a conservative forecast of the increase in civilian consumption of aluminum. Thus, in order to create the possibility of a substantial stockpile and to derive the benefits which such a stockpile might be expected to provide for the future, it is proposed to arrange, if possible, for further supplies of metal, as more fully described below. A presentation will be made at the meeting to illustrate the effects of such a program on the future stockpile.

NEW METAL SUPPLY PROGRAM

It is specifically proposed that DPA be authorized to negotiate for further aluminum reduction facilities in the United States, with the necessary raw material arrangements, for an aggregate of about 140,000 short tons of aluminum per year.

An examination of the possibilities leads to the conclusion that if interested private operators can be found, able and willing to make acceptable deals, arrangements for this amount of production could probably be made, utilizing in the first instance available interim power to be ultimately replaced by low cost permanent power installations. It is believed that this new expansion could be brought into production provided negotiations can be carried out expeditiously, about the middle of 1953.

In addition to the above, it is proposed to enter into a contract with the Aluminum Company of Canada, under which the latter would agree to export to the United States for sale at the then current United States c. i. f. prices, the following amounts of virgin aluminum:

	Short tons		*Short tons*
1953	94, 000	1957	300, 000
1954	170, 000	1958	300, 000
1955	300, 000	1959	300, 000
1956	300, 000		

The United States Government would agree with the Aluminum Company of Canada to purchase on demand during each of the 5 years 1955 to 1959 inclusive, not to exceed 180,000 tons of the above exports in the event that Alcan could not find commercial buyers for such amount. The Government may also have certain specific options for the stockpile. It should be pointed out that in its normal development, Alcan would probably, in any case, offer for sale in the United States between 100,000 and 150,000 short tons of metal annually over this same period. It is expected that the United States Government would have certain refusal rights with respect to the disposition of metal produced by further expansions in Canada beyond that contemplated under this proposal. Certain minor details of Alcan's offer are not included in the above summary.

Alcan may, on the basis of such arrangement, proceed promptly to develop its British Columbian facility at Kitimat to approximately one-half its ultimate potential, but Alcan has free choice in making its plans to meet the commitment. No financial assistance to Alcan is contemplated beyond the 5-year sales guarantee contract.

In summary, if the proposed new program were carried out, it would mean a contemplated addition to the United States supply of virgin metal of from 290,000 to 340,000 tons beyond what is now in sight. This extra metal would, of course, eventually further add to the supply of secondary aluminum from scrap generation at the rate of approximately 20 percent per year.

On the basis of these arrangements, total estimated supply of virgin aluminum to the United States at the maximum production, would be about 2 million tons, of which 300,000 tons or about 15 percent would be imported. With scrap recoveries, this should generate a total possible metal supply beginning in 1956, of approximately 2,400,000 tons.[2] This could be lower, depending upon hydrological conditions and the shutting down of high-cost plants presently operating.

At the meeting, presentation will be made against requirement figures to demonstrate the extent to which this proposed new expansion of production and imports would create the possibility of acquiring a large stockpile simultaneously with satisfying essential defense and total civilian requirements. The effects of the plan on our probable position in case of war will be shown.

POINTS FOR DISCUSSION

It is suggested that the following questions are appropriate for discussion at the meeting:

1. Is the proposed singling out of the aluminum stockpile for special treatment justified under the circumstances?

(*a*) Aluminum is one of the important materials where there is a real possibility of the accumulation of a large stockpile, whereas in the case of many other critical metals, there appears to be no real chance of ever accumulating a large stockpile.

(*b*) Aluminum is peculiarly subject to intense surges of demand because of the increasing emphasis on weight factors in all varieties of weapons and because of the growing importance of airborne operations.

(*c*) The temporary substitutability of aluminum for other critical materials in a war could be a factor of importance.

[2] On the basis of the history of some of the older metals, it may be that scrap aluminum may, over the years, constitute an increasing percentage of the aluminum supply.

2. Would the Government ever be likely to take a serious financial loss in the accumulation of a large stockpile of aluminum in the next few years?

(a) Following table is illustrative:

	Approximate Government investment	Approximate annual carrying charge at 3½ percent
Level of stockpile (short tons):		
2,000,000	$720,000,000	$25,000,000
3,000,000	1,080,000,000	38,000,000
4,000,000	1,440,000,000	50,000,000

3. Would the provision of a substantial amount of virgin aluminum from low cost Canadian sources not competing in the fabrication field serve to strengthen confidence among the thousands of independent fabricators that their needs would more certainly be cared for in times of strong market conditions than is the case at present?

This has been accomplished in part by the provisions in the present supply contracts to the effect that the operators, unless otherwise directed, will offer to independent fabricators at least 25 percent of the new production for a period of years.

4. What weight should be given to the fact that the Canadian arrangement would relieve the United States economy of a substantial impact on critical construction materials and equipment which it would otherwise have to face if a comparable supply were to be created in the United States?

5. Would a stockpile policy contemplating the absorption of aluminum market surpluses, if and when they appear, into the stockpile constitute an unnecessarily beneficent protection to the domestic aluminum industry which has largely been expanded for defense purposes at Government request?

6. What weight should be given to the principle that expansion in aluminum production in underdeveloped areas where competing demands for power are not present or in prospect represents relief of pressure on power facilities in the United States in order to take care of loads which can afford to pay higher rates?

7. Does a new expansion of aluminum supplies at this time and the proposed new stockpile policy contribute substantially to the protection of the country in the event of full mobilization?

8. Does the plan improve the chances of a relatively rapid decontrol of aluminum distribution?

PUBLIC SUPPORT

In view of the nature of these proposals, it is clear that if they are adopted, a comprehensive public statement should be made in explanation. This statement should clarify the Government's position with respect to substitution of aluminum for other materials and should fully disclose the considerations leading to the decision.

GENERAL

This memorandum has been prepared with a view to providing background material for comprehensive discussion. It is not intended to state a policy upon which decision has already been reached, but is designed to elicit constructive debate on the merits of the proposal. It is not intended for general circulation and although not highly classified under Government rules, it is requested that the recipients severely restrict its use to private purposes.

Prepared by:

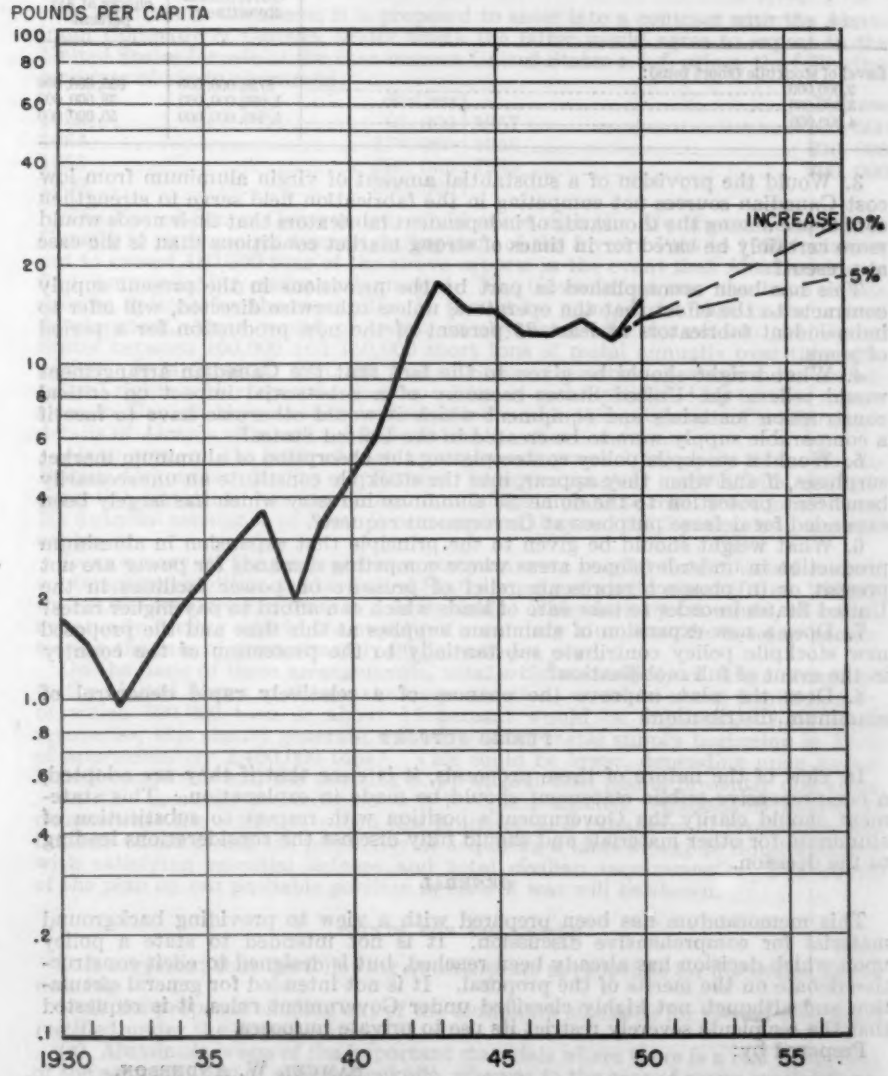
SAMUEL W. ANDERSON,
Deputy Administrator for Aluminum Defense Production Administration.

FEBRUARY 26, 1952.

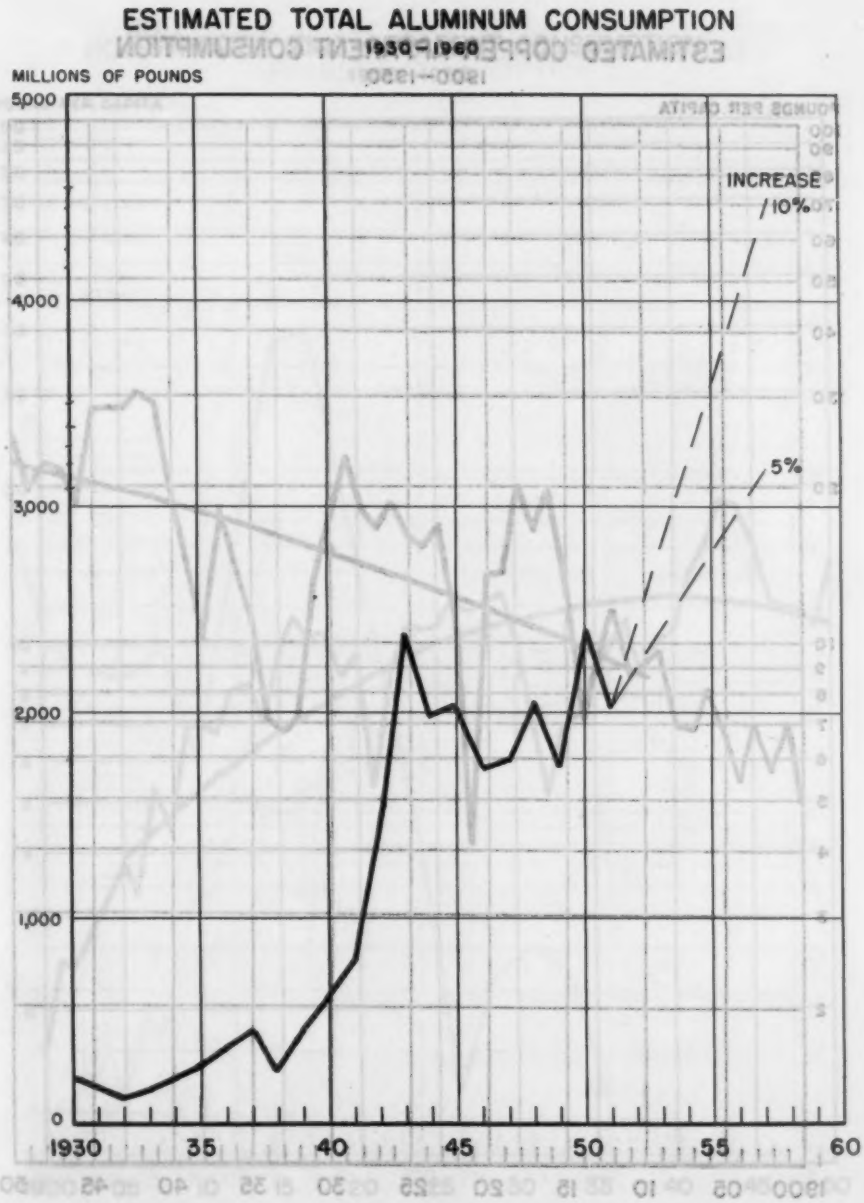
Approved:

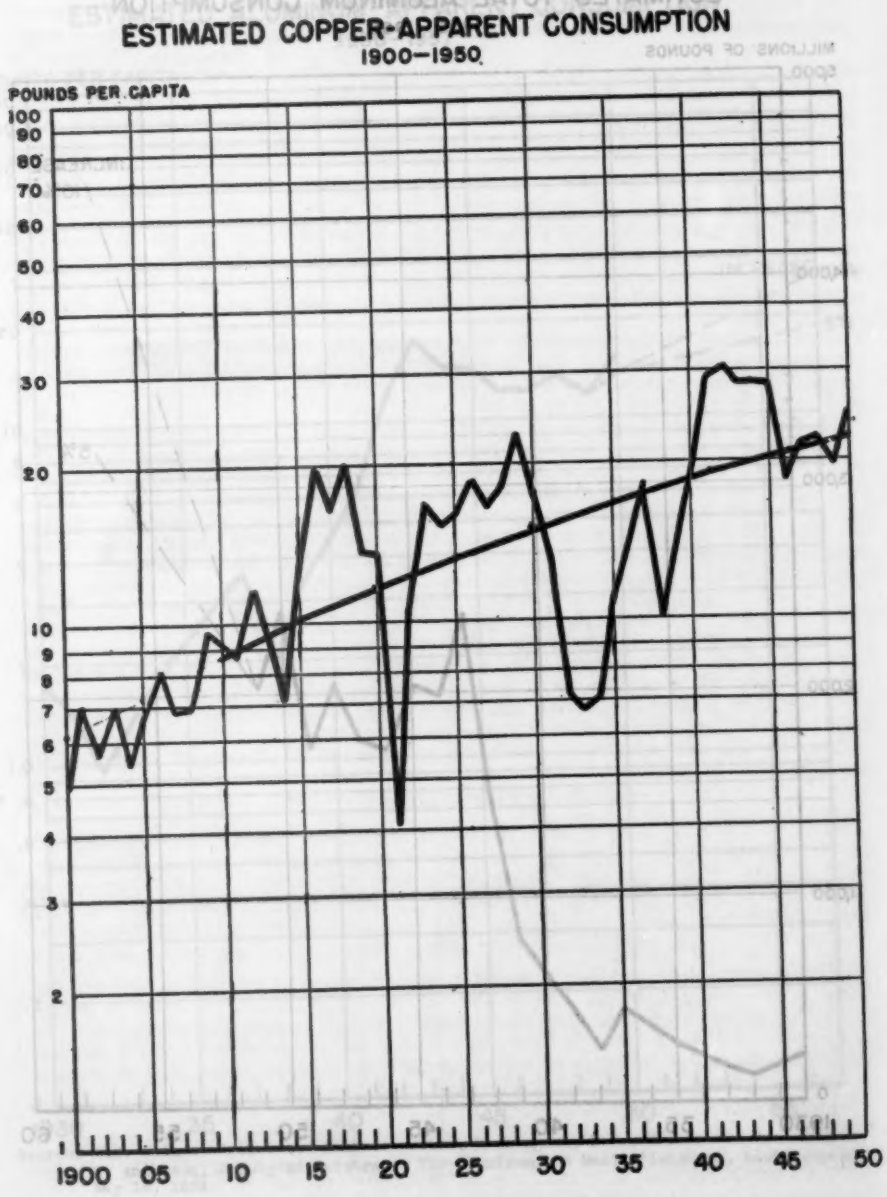
CHARLES E. WILSON,
Director, Office of Defense Mobilization.
MANLY FLEISCHMANN,
Administrator, Defense Production Administration.

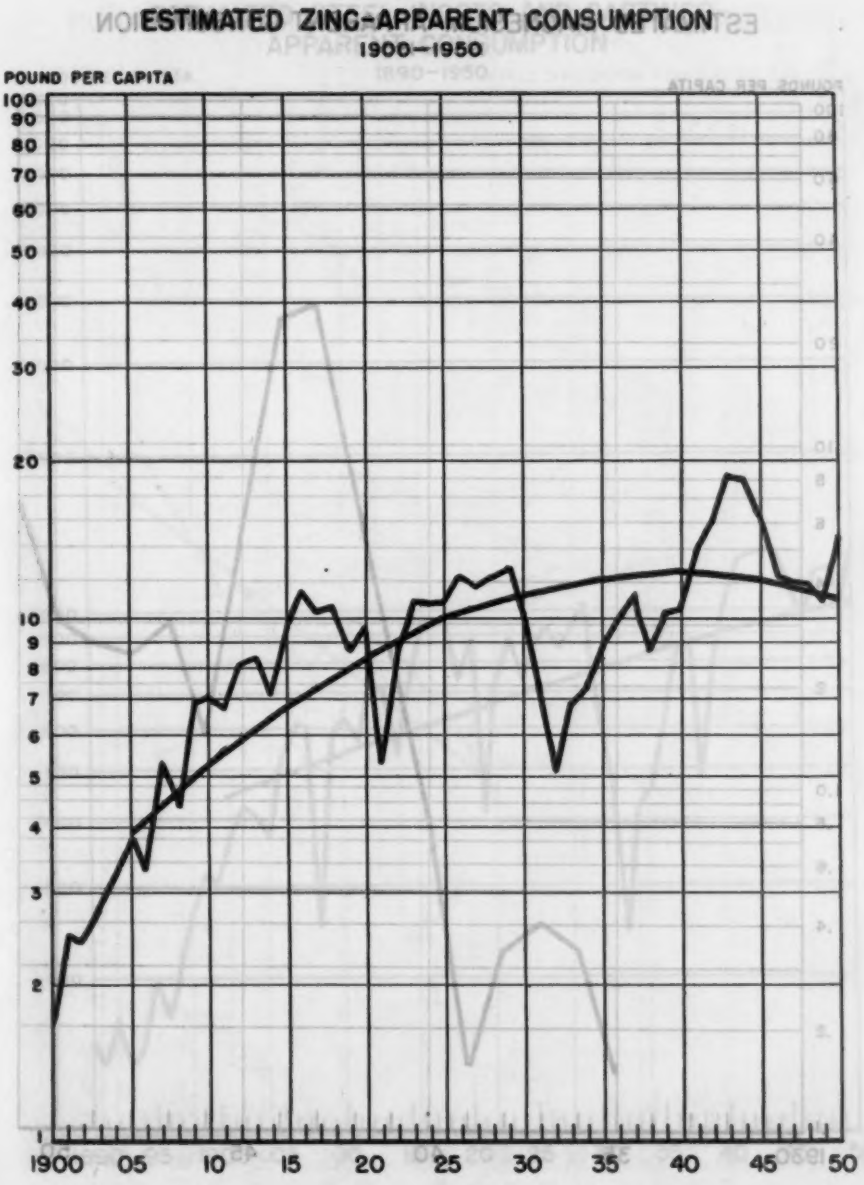
ESTIMATED ALUMINUM-APPARENT CONSUMPTION
1930–1957



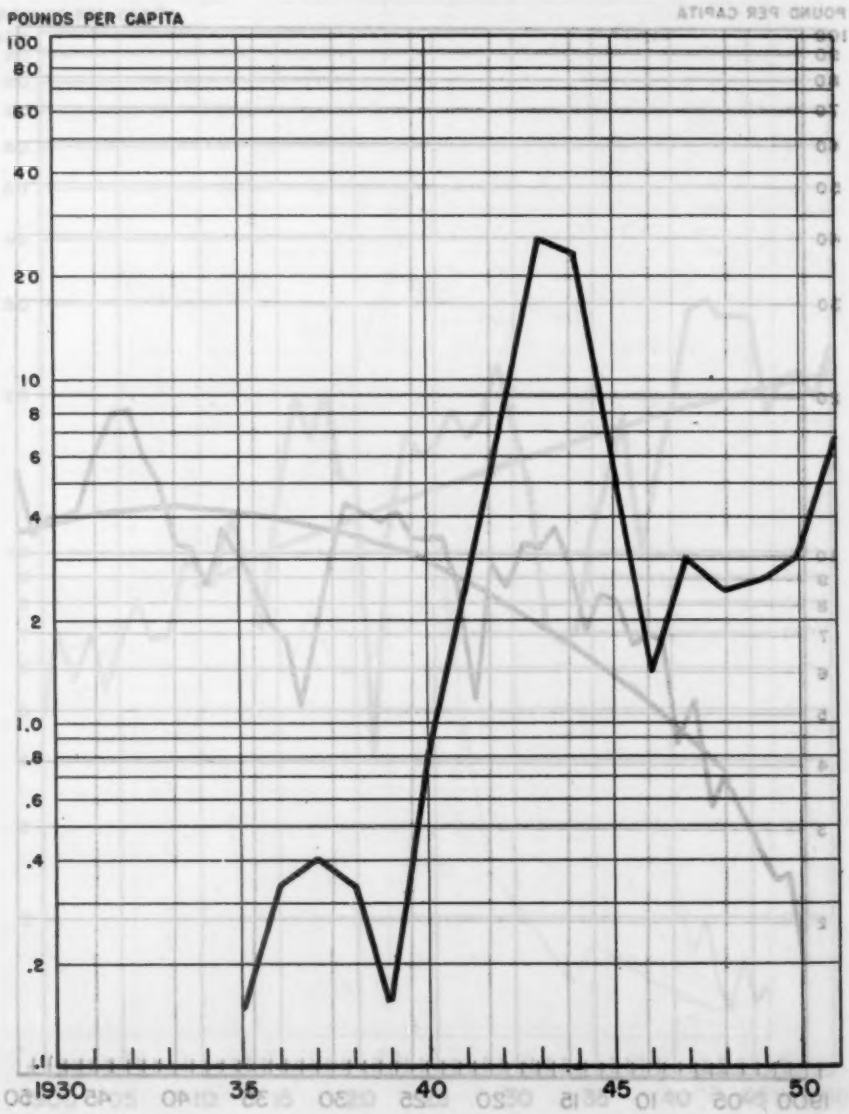
Source: U.S. Defense Production Administration, Washington, D.C., Memorandum from Samuel W. Anderson, Deputy Administrator for Aluminum, to Manly Fleishman, Administrator, May 16, 1952.

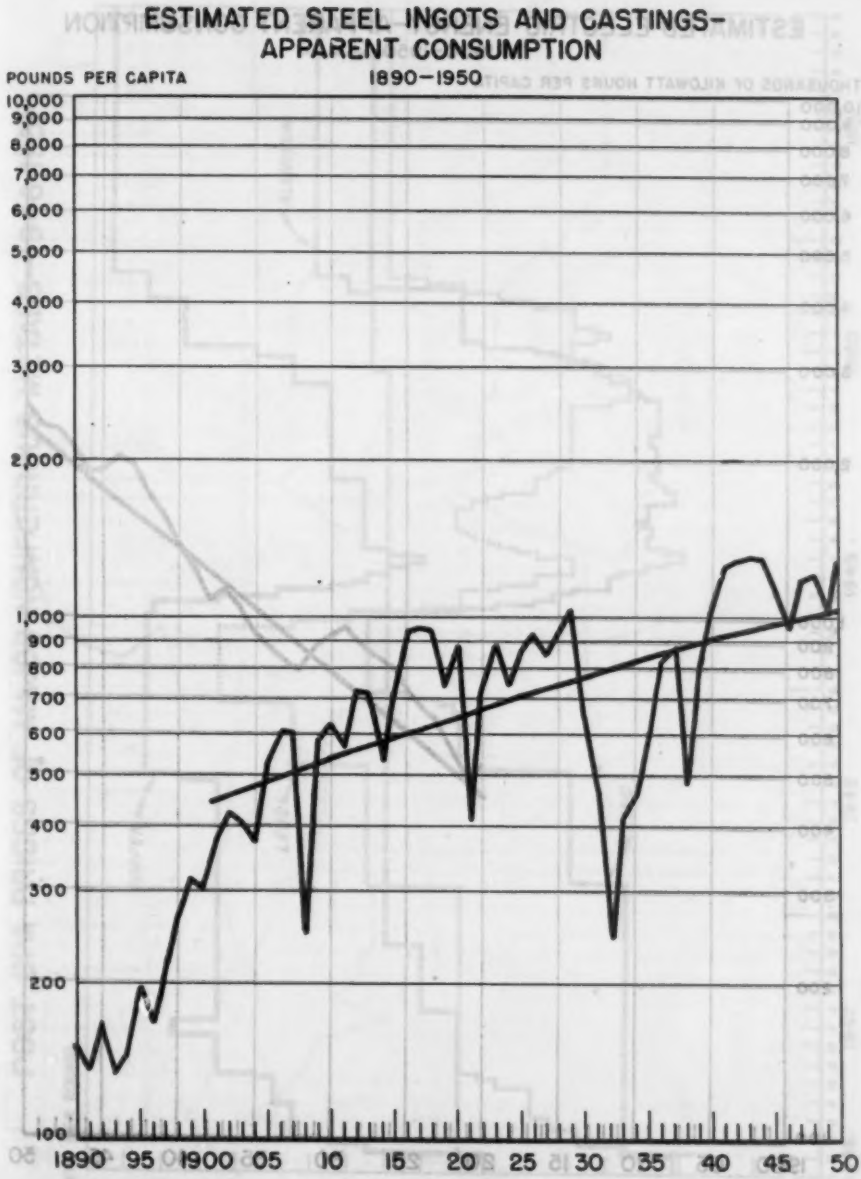

ESTIMATED TOTAL ALUMINUM CONSUMPTION
1930 – 1960
MILLIONS OF POUNDS
5,000
4,000
3,000
2,000
1,000
0
INCREASE
/10%
5%
1930
35
40
45
50
55
60

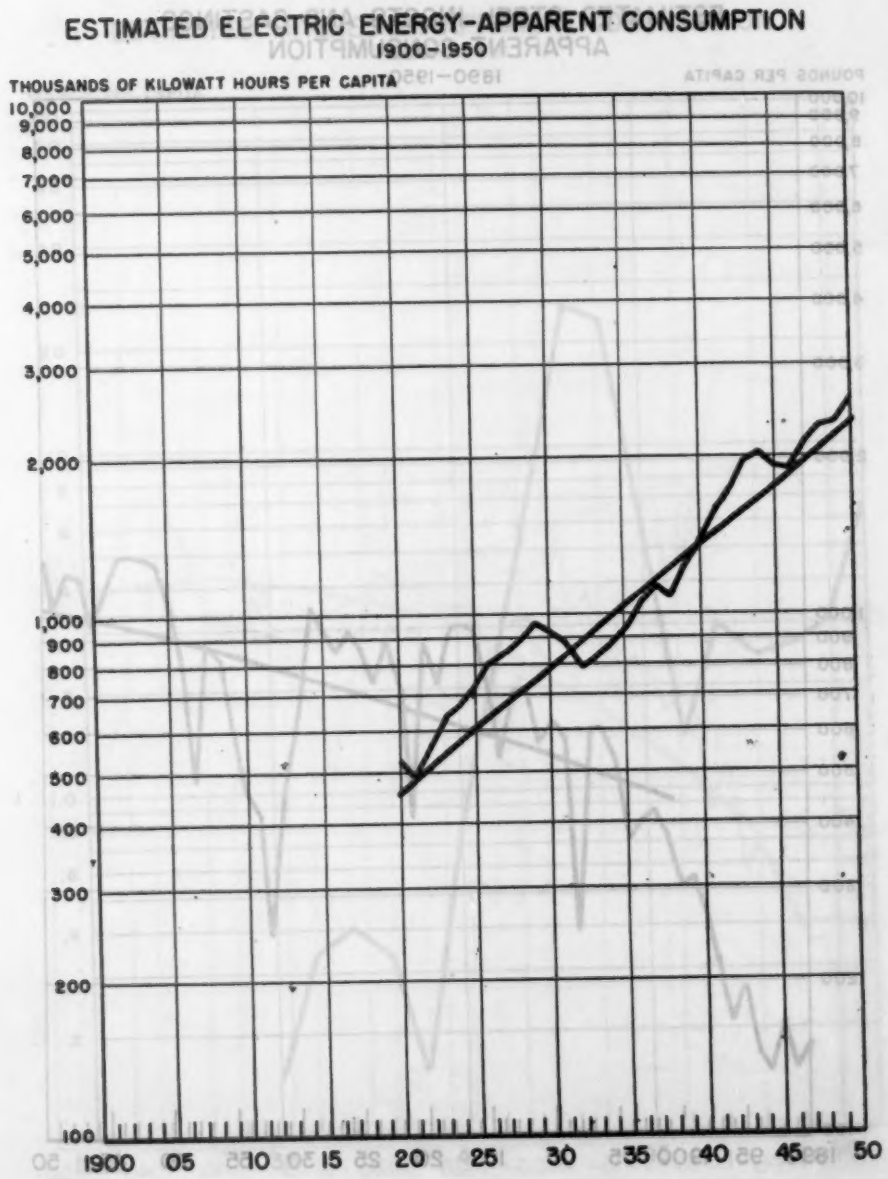

ESTIMATED COPPER-APPARENT CONSUMPTION
1900—1950
POUNDS PER CAPITA
100
90
80
70
60
50
40
30
20
10
9
8
7
6
5
4
3
2
1
1900
05
10
15
20
25
30
35
40
45
50

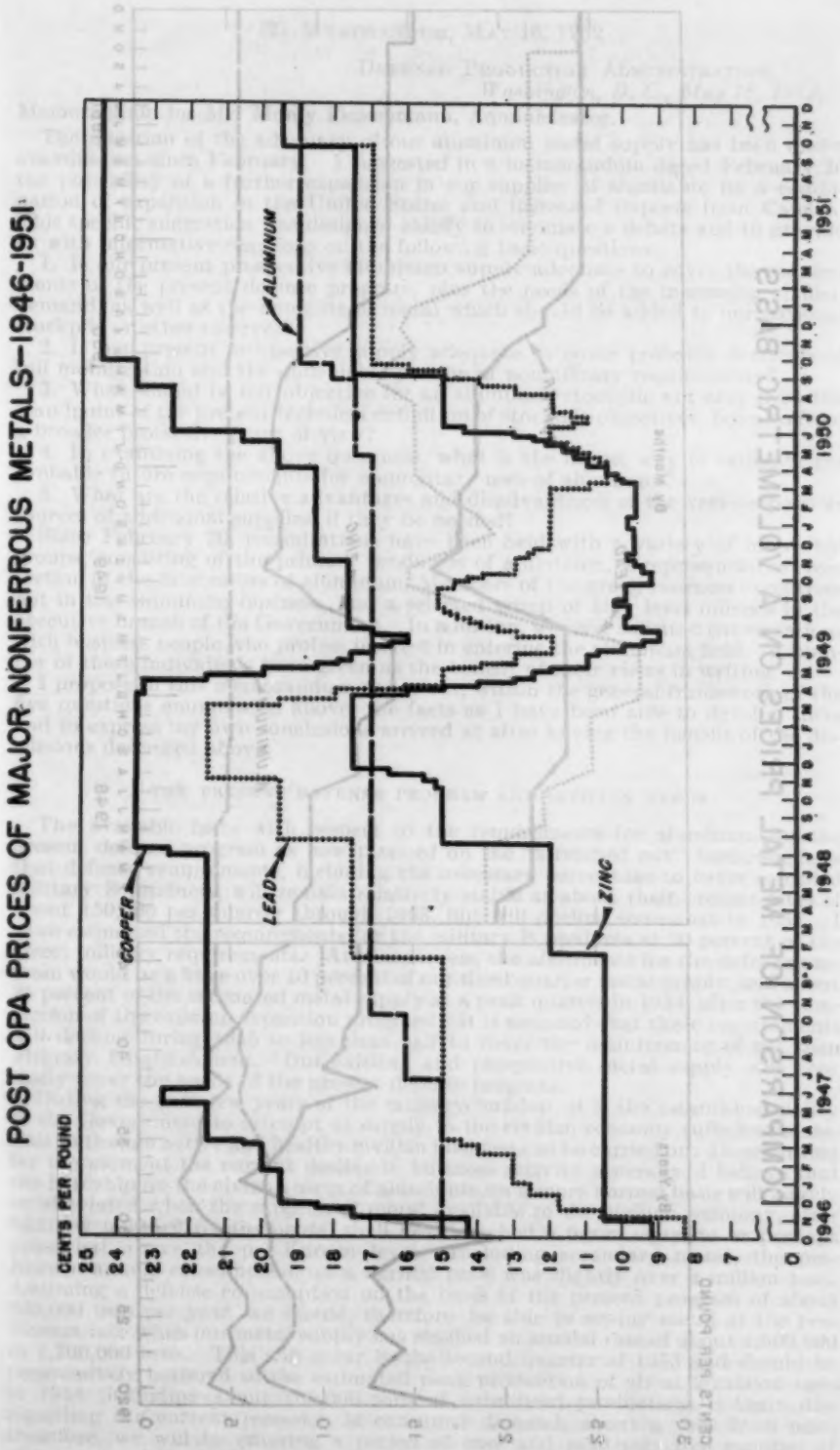

ESTIMATED ZINC-APPARENT CONSUMPTION
1900—1950
POUND PER CAPITA
100
90
80
70
60
50
40
30
20
10
9
8
7
6
5
4
3
2
1
1900
05
10
15
20
25
30
35
40
45
50

ESTIMATED MAGNESIUM-APPARENT CONSUMPTION
1930–1951

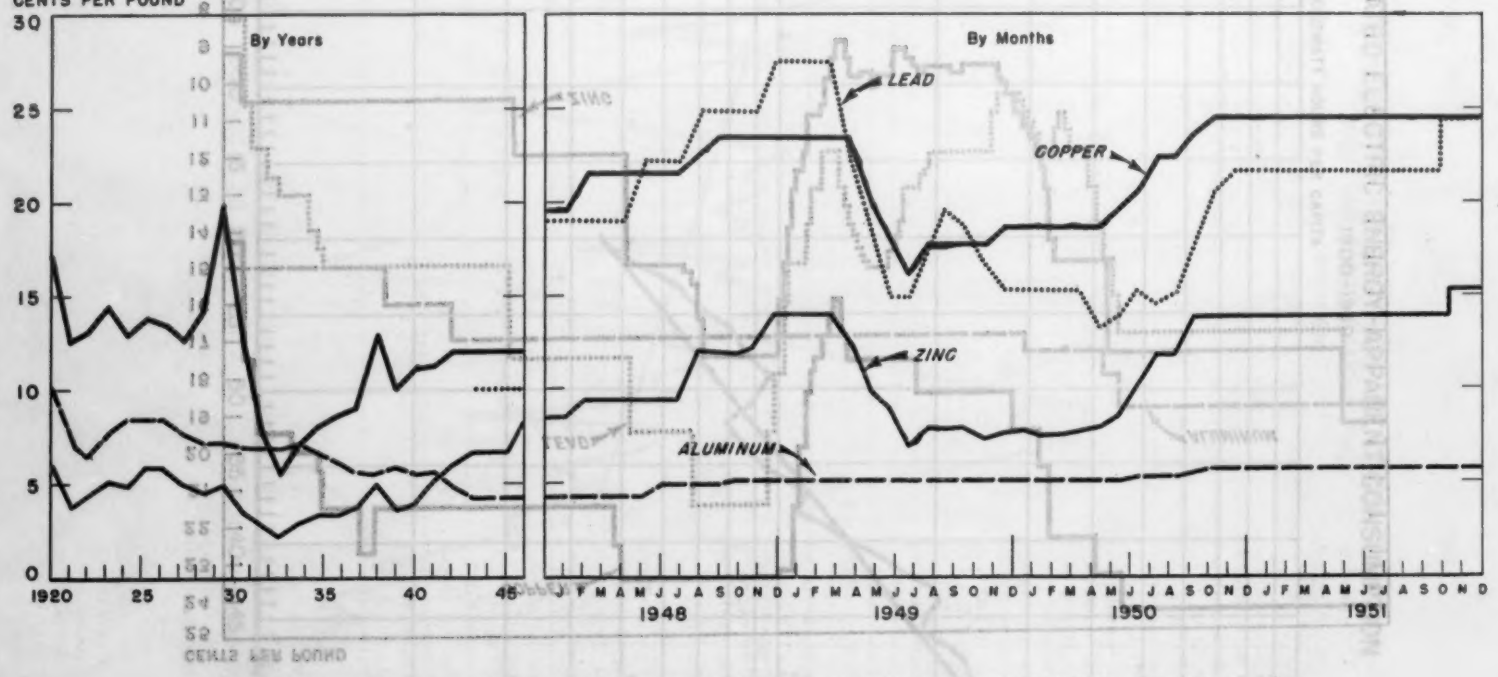



ESTIMATED STEEL INGOTS AND CASTINGS-
APPARENT CONSUMPTION
POUNDS PER CAPITA
1890–1950
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
900
800
700
600
500
400
300
200
100
1890 95 1900 05 10 15 20 25 30 35 40 45 50


ESTIMATED ELECTRIC ENERGY-APPARENT CONSUMPTION
1900-1950
THOUSANDS OF KILOWATT HOURS PER CAPITA
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
900
800
700
600
500
400
300
200
100
1900
05
10
15
20
25
30
35
40
45
50


POST OPA PRICES OF MAJOR NONFERROUS METALS—1946-1951
CENTS PER POUND
ALUMINUM
COPPER
LEAD
ZINC
1946
1947
1948
1949
1950
1951

COMPARISON OF METAL PRICES ON A VOLUMETRIC BASIS



(2) MEMORANDUM, MAY 16, 1952

DEFENSE PRODUCTION ADMINISTRATION,
Washington, D. C., May 16, 1952.

Memorandum for Mr. Manly Fleischmann, Administrator.

The question of the adequacy of our aluminum metal supply has been under examination since February. I suggested in a memorandum dated February 26 the possibility of a further expansion in our supplies of aluminum by a combination of expansion in the United States and increased imports from Canada. This specific suggestion was designed chiefly to stimulate a debate and to provide us with informative reactions on the following basic questions:

1. Is our present prospective aluminum supply adequate to cover the requirements of the present defense program, plus the needs of the increasing civilian demand, as well as the amounts of metal which should be added to our national stockpile or other reserves?

2. Is our present prospective supply adequate to cover probable demands of full mobilization and the undeniable portion of nonmilitary requirements?

3. What should be our objective for an aluminum stockpile not only from the standpoint of the present technical definition of stockpile objectives, but also from a broader protective point of view?

4. In examining the above questions, what is the fairest way to estimate the probable future requirements for nonmilitary uses of aluminum?

5. What are the relative advantages and disadvantages of the various possible sources of additional supplies, if they be needed?

Since February 26, consultations have been held with a variety of interested groups, consisting of the primary producers of aluminum, a representative cross section of the fabricators of aluminum, Members of Congress, business executives not in the aluminum business, and a selected group of high level officials in the executive branch of the Government. In addition, we have solicited conversations with business people who profess interest in entering the aluminum field. A number of these individuals have given us the benefit of their views in writing.

I propose in this memorandum to set out, within the general framework of the five questions enumerated above, the facts as I have been able to develop them and to express my own conclusions arrived at after having the benefit of the discussions described above.

THE PRESENT DEFENSE PROGRAM AND CIVILIAN NEEDS

The available facts with respect to the requirements for aluminum for the present defense program as now planned on the "stretched out" basis, suggests that defense requirements, including the necessary percentage to cover so-called military B products, will remain relatively stable at about their present level of about 150,000 per quarter through 1953, but will decline somewhat in 1954. I have estimated the requirements for the military B products at 20 percent of the direct military requirements. At these levels, the allotments for the defense program would be a little over 40 percent of our third quarter metal supply, and about 25 percent of the estimated metal supply at a peak quarter in 1954, after the completion of the existing expansion program. It is assumed that these requirements will decline during 1955 to less than half to cover the maintenance of the then Military Establishment. Our existing and prospective metal supply will very easily cover the needs of the present defense program.

During the next few years of the military buildup, it is the established policy of the Government to attempt to supply to the civilian economy sufficient materials so that an active and healthy civilian business can be carried on. Disregarding for the moment the current decline in business activity generally, I believe that the hardship on the civilian users of aluminum on a more normal basis will largely be alleviated when the supplies of metal available to the civilian economy, after fulfilling military requirements, shall have reached a figure equal to or perhaps somewhat above the pre-Korean level. Including secondary metal, the pre-Korean annual consumption on a normal basis was slightly over a million tons. Assuming a defense consumption on the basis of the present program of about 600,000 tons per year, we should, therefore be able to supply metal at the pre-Korean rate when our metal supply has reached an annual rate of about 1,600,000 to 1,700,000 tons. This will occur in the second quarter of 1953 and should be progressively bettered to the estimated peak production of about 2 million tons in 1954 (including about 100,000 tons of subsidized production). Again disregarding the current recession in consumer demand, about a year from now, therefore, we will be entering a period of ease and relatively free supplies of aluminum, with still further prospects of larger amounts to satisfy the natural

growth in the demand. This should provide a good deal of leeway to the civilian economy in increasing its consumption and will also present opportunities in all probability, to begin the long upward climb to a respectable stockpile. Apart from the question of the amounts of metal which can and should be made available for stockpiling without handicapping civilian production, there does not seem to be in the picture, as I see it, any justification for the Government taking further initiative and sponsoring with financial or other incentives further expansion in supplies at this time for the sole objective of insuring metal for the present defense program of for arranging for further supplies for the civilian economy. I shall return to this question later in discussing stockpiling.

ALL-OUT MOBILIZATION

I need hardly say that the discussion which follows does not reflect a conviction on my part that war will come, but we would be foolhardy not to examine our position as well as we can against that unfortunate contingency.

In considering the situation in which the United States would find itself with respect to aluminum if war should come, we can approach the problem in several ways. It seems to me fruitful to deal with these at some length.

In the first place, it should be frankly stated that we do not presently know with any degree of accuracy what the requirements for aluminum would be likely to be in case of war. Several studies of the question are now in process. Some general observatons, however, are worth stating.

The maximum consumption of aluminum during World War II was 1,245,000 tons in 1944. During that war, approximately 80 percent of aluminum allotted for military uses went into the production of aircraft and all nonessential uses of aluminum in the civilian economy were eliminated. Nevertheless, civilian needs had to be covered to the extent of about 156,000 tons in the peak year. Experience so far in the present military buildup indicates that the military uses of aluminum have broadened out greatly since World War II. Present defense allocations, for example, assign to aircraft approximately 55 percent of the total military allotments, the balance going for such equally vital programs as vehicles, ammunition, guided missiles, and a host of other equipment previously not made from the metal. This is explained in part by the fact that the equipment of our military forces of all categories is becoming increasingly airborne or potentially airborne and, accordingly, there is increasing emphasis on lightness in weight. I find no dissent from the view that in a future war, especially one which may not come for a number of years, this trend toward lightness and toward ability to be airborne will strongly continue. It is thus possible that the weapons and impedimenta of our forces 10 or 15 years from now may contain relatively far larger quantities of aluminum than is the case even now. If the logistics of a future war increasingly "take to the air," this could have a very profound effect on the military needs for aluminum.

When one considers the question of timing of aluminum requirements in the event of war, again the experience of World War II is of some value but is not necessarily controlling. With the rapid buildup in production of military items which inevitably comes only after a war starts, the two most important factors influencing the timing of the peak consist of (1) the filling of the pipeline of materials leading to the "chew up" point and, (2) the buildup to a peak of production of finished products, such as aircraft. This process of buildup will probably cause the peak of demand on the aluminum system to occur in the third year after M-day, after which, with full pipelines, demand should at worst remain about stable or perhaps be somewhat lower. The timing can further be influenced, however, by the condition of our productive facilities on M-day. If the present plan of bringing into being the long lead time facilities capable of producing two or three times the presently planned rates of production is carried out successfully, it seems obvious that the buildup in the demand for metal and other materials going into expanding production could be more rapid than I have suggested. It seems unlikely, however, that this would advance the peak of consumption by as much as a year, but it is at least conceivable. These conclusions seem consistent with experience in World War II.

On top of the full mobilization military requirements for aluminum will have to be imposed those irreducible minimum needs for nonmilitary purposes which cannot be denied even in wartime. I have had a careful code-by-code examination made in the light of World War II experiences and have come to the conclusion that even in the severest variety of war, it would be necessary to provide about 250,000 tons a year as a barest minimum for uses which could not be cut off without seriously damaging our ability to carry on the war. To these needs

there might be added a further amount, difficult to estimate, which could very profitably be used in substitution for other materials in more critical supply than aluminum. It is possible, for example, that in the event of war, it would be so essential to conserve copper supplies, of which a considerable part is drawn from overseas, that an intensive drive to substitute aluminum would be sound policy. Thus, perhaps 100,000 to 200,000 tons per year might easily be considered as of the greatest possible importance.

Emphasizing once more the fact that we do not yet have and will not have for a number of months a reliable forecast of the requirements of all-out war, I will, nevertheless, hazard a guess that including the minimum nonmilitary requirements and the amounts which might prove of great value in substitution for copper, the undeniable requirements for an all-out war during the third or perhaps second year would be unlikely to fall below 2,250,000 to 2,500,000 tons. There is some indication available at present that it might be considerably more. This matter should be carefully reexamined 6 months from now.

It is appropriate at this point to recall our experience during World War II with respect to forward estimating. Even conceding that our degree of sophistication in that period was less than it should be today, I think it is conservative to point out that requirements estimated ahead of the actual experiences of executing a war are likely to be unrealistic. This seems particularly true today with a rapidly developing technology and in the presence of such a wide degree of uncertainty, as to the theaters where action is likely. Too much faith should, therefore, not be put even in the most skillfully executed studies of war requirements which, at the very best, must contain wide areas of personal judgment, often quite fallible.

SUPPLIES AVAILABLE IN A WAR

As pointed out heretofore, our present prospective supplies, including estimated secondary metal, normal imports mostly from Canada and about 100,000 tons per year of subsidized high cost metal (which can be turned on and off) will not exceed about 2 million tons at-peak in 1954. In case of war, however, the distribution of Canadian production might be rearranged depending upon the then situation. In such circumstances, it is assumed that the United States and Canadian economies would be carefully geared together in defense. Whether the 275,000 short tons of aluminum per year presently scheduled under contract for the United Kingdom would continue to flow to the United Kingdom would, of course, altogether depend upon the latter's situation and whether war production there and transport of materials for it could be maintained. The supplies of Canadian aluminum now moving to other world markets outside of the United Kingdom, estimated at about 54,000 short tons, would presumably also be subject to the same treatment. It is, therefore, possible, but not certain, that under war conditions an appreciable quantity of aluminum not needed for war production in Canada might be added to the American system. Any further augmentation of our supplies in the event of war would necessarily have to come from new production on the North American Continent and/or from any supplies then available in the stockpile.

If, as I think might easily prove to be the case, the requirements in a war should exceed the supplies we would then have in hand (at present measured by the capacity of about 2 million tons, plus some extra from Canada possibly), we would then have to proceed once again, as we have twice in the past, to build rapidly considerable additional capacity to produce metal unless we had at that time a large stockpile. If we had been successful in accumulating a large stockpile before M-day, the question of whether or not we would have to build additional capacity after war came and if so, at what speed, could certainly be considered in a far more orderly manner than would be the case in the absence of a substantial stockpile.

In my opinion, this is the heart of the question which faces us now. Should we, now or some time soon, so plan our aluminum capacity as to improve our chances of accumulating at a reasonably rapid rate a stockpile of sufficient magnitude so that we can be relieved of the necessity of starting to build precipitously for a third time, an expanded aluminum system and be able to await the development of relatively firm requirements under actual war conditions without fear of a disastrous bottleneck in the production of the metal?

THE STOCKPILE QUESTION

In order to judge fully the value of a stockpile, it is appropriate to try to visualize what conditions may be like in case of war and to assess the impact of these conditions on the production of aluminum.

The most outstanding fact about aluminum is that it consumes very large amounts of power. The production of 1,500,000 tons of virgin metal per year (our present prospective supply) will consume 30 billion kilowatt-hours per year, or about 6 percent of the expected generation in the year 1954. This is an amount in excess of the expected margin of capacity as presently planned over peakload in that year and certainly represents one of the largest single loads in the country, if not the largest.

Experience in the last war suggests that one of the most effective methods of damaging the industrial potential of any nation is to knock out its power-generating facilities. The generators and switchgear are delicate mechanisms and once seriously damaged, take a long time to repair. The all-pervasive character of power in the United States is too well known to need emphasis here. The appetite of the United States for power is well illustrated by the fact that between the years 1948 and 1954 we will have built power-generating facilities of a greater capacity than all those built in the history of the country up to 1948. Even at this rate, however, our power system will not succeed in building a reserve of capacity up to the recommended safety margin of 15 percent. In these circumstances, it seems to me foolhardy to assume that if the potential enemy can damage our country physically, we will be unlikely to suffer power losses and experience a severe power shortage. The shortage may not happen at once, but because of the long lead time in the production of power equipment and the severe strain which its manufacture places upon the industrial resources of the country, it may easily prove to be a very difficult bottleneck to keep under control. If this is a correct assessment in general terms, any feasible way to stockpile power in advance of a conflict should be utilized within the limits of practical accomplishment. A stockpile of aluminum, representing as it does a stockpile of about 10 kilowatt-hours for every pound (a million tons represents a stockpile of 20 billion kilowatt-hours), could be one of the most valuable assets possessed by the country in the event of war. It could even mean that the aluminum load on the power system of the country could be placed in a relatively secondary category of urgency in comparison with other more urgent war demands for which no stockpile is feasible.

In addition to being a stockpile of power, of course, a stockpile of virgin aluminum also represents a stockpile of ocean and inland transportation and labor. In another war we have certainly no assurance that ocean shipping of bauxite may not become a severe drain upon shipping resources, if not impossible to carry out in the necessary quantities. To be sure, our stockpile of bauxite is an additional insulation against this contingency but not against power, labor, and domestic transportation bottlenecks.

Aluminum pig does not appreciably deteriorate in open storage, consists of 99 to 99.5 percent aluminum and is in the most flexible form of metal before fabrication.

The point is frequently made that a stockpile of aluminum is an alternative to the building of reserve facilities and vice versa. It is certainly much cheaper and more efficient to accumulate a large stockpile of aluminum if we have the opportunity of doing so rather than to build standby or surplus facilities which must remain idle until needed for an emergency. To illustrate with a few figures, a stockpile of 2½ million tons of aluminum which, for the sake of this discussion it is assumed would be used up in 2 years in an emergency, would cost at current prices about $900 million and would represent, in effect, an advance payment on military contracts by the Government. To build plants capable of producing at the annual rate of 1,250,000 tons, together with the necessary alumina and bauxite facilities, would probably cost at today's prices in the neighborhood of $1,600 million.

The building of standby plants as an alternative to a stockpile also presupposes that standby power facilities can be built. Experience so far in the United States suggests that it is unlikely that any power facilities capable of servicing the growing loads which are found everywhere in the country would be kept in a standby position waiting use in aluminum production. It is also worth noting that the shedding of power loads from nonessential uses in a country like the United States is difficult and relatively unproductive. The yields of the brownouts during the last war made a relatively insignificant contribution in relation to the growing power needs generated by the war.

We all remember the dilemma in the middle of World War II, which indeed has been in some measure repeated this time, of choosing between devoting resources to the building of new facilities and the production of weapons for prompt use. Any nation fighting a war has a definite limit of resources which

can be devoted to its war effort over and above the minimum required to sustain the population. This limit as we have learned in the past, is not indefinitely expandable and choices must be made—sometimes bitter choices—between building for future production of weapons and producing them now. A large stockpile of aluminum would remove this metal, in large measure, from the inevitable early contest for resources that will certainly occur in another war. The exception to this is the problem of fabricating facilities to the extent that they need expansion.

There are, of course, certain serious objections to the accumulation of a large stockpile of aluminum or any other metal. If it is considered now to be good national policy for the defense of the Nation to embark on the accumulation of a large stockpile, it may be regarded in calmer times some years hence as an unnecessary extravagance. There may be political pressures to utilize the stockpile as a source of cash, if it be sold, or even as an instrument in the hands of some future government to bear down upon the private industry engaged in the production of the metal for peaceful uses. While this argument appears forceful within the context of a certain conception of irresponsibility of Government, one is tempted to ask at what point can we assume the development of a mature responsibility for our country's long-term safety?

Under the present stockpile policy of the United States applying to all of the materials subject to stockpiling activities under the law, stockpile goals are established according to a rather specific formula. Shorn of its technicalities, the goal in each case is that amount by which the expected 5 years' domestic production and imports will fall short of the undeniable requirements for a 5 years' war. Various technical factors are used to measure the supply side of this equation. It is obvious from this statement that the setting of such goals presupposes a fairly accurate determination of several factors. The most difficult of these is probably the estimation of the requirements under war conditions, as I have previously pointed out. In operating the formula, furthermore, no consideration is being presently given to the possibilities of the loss of production through enemy action, nor to the relative degrees of priority claims on such fundamental resources as power. As I have attempted to establish in the foregoing discussion, I believe that this type of calculation of the amount of aluminum which it would be wise for us to attempt to accumulate does not adequately measure the realistic value to the Nation of a stockpile of aluminum. Since the presently established goal for the aluminum stockpile is known to you and is a classified figure, I am omitting it here. My own judgment is, however, that if it were possible for us to accumulate and to hold as a national protective reserve under conditions which would minimize the possibility of its being misused, about 2,500,000 tons of aluminum, it would be an exceedingly valuable asset in event of war out of all proportion to the cost of accumulating it.

HOW CAN A LARGE STOCKPILE BE ACCUMULATED

I find general acceptance of the view that the accumulation of considerable stockpiles of materials can really only effectively be accomplished when the demand for the materials is less than the available supply. All of our experience to date, I think, proves that attempts to accumulate stockpiles in tight markets when the economy of the country actively competes for the material in question, are generally failures or near failures. The time to accumulate a stockpile without major disturbances in the civilian economy is when markets are soft and supplies are readily available. It has been true, of course, that during such times congressional appropriations for stockpiling have been either meager or nonexistent because of the desire of the Congress to minimize appropriations of all kinds. Experience is so clear on this matter, however, that I think that the only real chance of success if we are serious about accumulating a large stockpile is to plan a system which will permit it to be accumulated without major disturbances to the civilian economy.

THE FUTURE CIVILIAN DEMAND

This brings me to the fourth point proposed at the beginning of this memorandum; namely, what is the fairest way to judge the probable future requirements for aluminum for the civilian economy?

I am attaching a series of charts to this memorandum with which you are already familiar. These charts attempt graphically to set forth several assumptions with respect to the probable future demand for aluminum for civilian purposes. They also take into account the present military program as described heretofore.

Attempting to project future civilian consumption of any material is a very hazardous business. I have elected to do so by utilizing per capita consumption figures. The chart shows what the civilian demand would be (superimposed upon the forecast military demand) if per capita consumption of aluminum rose at an average uniform rate of 10 percent per year, 5 percent per year and 3½ percent per year. Numerous critics of this method have suggested that to assume a steady average rate of increase of any percentage is unrealistic, both because of the certainty of ups and downs in the business cycle and the equal certainty that as the use of the metal expands in the economy, the rate of increase percentagewise will progressively decline. This has been the history of other older materials. I recognize the force of these arguments. I am attaching several charts showing the past history of per capita consumption of some other materials. Nevertheless, an attempt to give effect to the unpredictable variations in business activity as well as to the forecast over a 10-year period, the declining rate of increase would be, if anything, more hazardous than using an average figure. These observations are not intended to suggest that the method I have used is the most accurate, but it is the one which seems to me to lend itself to relatively simple and reasonably good average judgment.

Although some of those with whom I have discussed it would disagree, I believe that an average rate of increase in the per capita consumption of as high as 10 percent per annum is overly optimistic. This would mean the doubling in the per capita consumption of about 13½ pounds per capita in 1950 (discounted downward from the actual fact of about 16 pounds because of Korea) in about 7 years. This seems to me unlikely unless some exceedingly large new uses develop very rapidly indeed after aluminum becomes relatively free. This could happen in the construction field, in the containers field, in the automotive field, in the irrigation pipe field, but it would certainly be more conservative to discount this possibility. Similarly, a figure of 3½ percent increase in the per capita consumption as an average seems to me, from all evidence at my disposal, to be probably too low and not to reflect the dynamic character of aluminum and the very wide and growing interest in it. My own judgment is that as an average figure, a 5 percent increase in the per capita consumption for the next decade is about as good a guess as can be made in this variety of crystal-ball gazing. Generally speaking, the weight of objective opinion that I have tested I think would be likely to indorse this conclusion.

If we, therefore, select a figure of 5 percent per annum growth in the per capita consumption of aluminum as an average, we can calculate as an average over a period of time, with the inevitable hills and valleys averaged out, how much metal will be needed by the civilian economy and how much will be left over to be accumulated into a stockpile after satisfying this need, as well as the projected military requirements. The attached charts show that if only this surplus metal is taken into the stockpile, we would eventually add about 710,000 tons to the stockpile by the year 1958. At that point, again assuming a steady average growth, the civilian demand would have caught up with our prospective metal supply as it now stands. The only basis on which we would add more metal to the stockpile than 710,000 tons, would be a business situation up to 1958 which would reduce the average growth in the civilian demand substantially below the rate of 5 percent per annum increase in the per capita consumption which I have assumed, or the addition from some source of further supplies of metal.

There is, of course, another means of enlarging this stockpile addition. This is for the Government, through the stockpile operation, actively to compete with civilian needs and thus tighten the market so that some of the civilian needs were not satisfied. While I am quite willing to concede that with our present very small stockpile, competition, with civilian requirements for aluminum in the immediate future may be justified to some degree because of our serious deficiency, I am very reluctant to assume that aluminum should be kept under governmental controls for any extended period for the purposes of serving the stockpile or, even after controls have been lifted, that the Government should become an active and insistent competitor of the civilian economy to the latter's detriment. It is my impression that political and other types of pressures would become very severe if we proceeded on this basis and that it would be very difficult to maintain such a policy for very long.

This discussion would not be complete without pointing out that under the terms of the supply contracts which have been given to Alcoa, Kaiser and Reynolds as part of the incentive to expand their metal facilities, the Government has agreed to purchase on demand of the producers, aluminum pig in an amount up to the total of the production for about 5 years of the expansion now underway.

It also has the right to demand this metal in any quantities it wishes. The total production of the expanded facilities for the approximately 5-year periods covered by these contracts is over 3 million tons. Theoretically, therefore, the Government has in hand now a means of accumulating a stockpile of about 3 million tons under the terms of the Defense Production Act. Transactions of this magnitude, however, were certainly not contemplated as the realistic outcome of the supply contracts or as a justifiable use of such large amounts of DPA funds. The contracts were designed primarily as a protective mechanism to guarantee to the companies involved that during their periods of rapid amortization there would be indeed a final buyer for all of the production of the new plants. It was, however, contemplated that the Government, in general, would only be required to buy such metal as the companies could not sell commercially. Furthermore, there is no built-in set of terms in these contracts that the metal so purchased would, in fact, be turned over to the national stockpile although this is, of course, an open choice of the Government's. A portion of these contracts is cancellable by the Government after 2½ years so that the total commitment is susceptible of being reduced from the above-mentioned 3 million tons under certain circumstances. These cancellation privileges of the Government become inoperative if the Government contracts for over 10,000 tons of foreign metal.

In summary, if it should be decided as a matter of high policy that we should create a situation where 2½ million tons of aluminum could be accumulated without making serious inroads on the civilian economy and if my 5 percent assumption of the rate of growth in the per capita consumption is regarded as realistic, we would have to provide something like 300,000 tons per year of additional sources of aluminum in order to reach such a figure.

SOURCES OF FURTHER SUPPLIES OF ALUMINUM

In exploring the question of possible sources of further supplies of aluminum, as you know, we have looked in two separate directions.

At our request, the Aluminum Company of Canada has made two separate offers to increase their expected normal rate of export to the United States. The first of these offers expired on April 18, 1952, and the second expired on May 18, 1952. Under each of these offers, the Aluminum Company of Canada contemplated that it would substantially increase its exports of metal to the United States beyond the approximately 100,000 tons per year it would probably send here in any case. The minimum amounts of metal which the company agreed it would offer to commercial buyers in the United States under each of the offers are shown in the following table, together with the amounts which the company requests the United States Government to purchase if commercial buyers cannot be found for these amounts.

[Short tons]

	Old offer		New offer	
	Minimum exports to the United States	Maximum U. S. Government contingent purchases	Minimum exports to the United States	Maximum U. S. Government contingent purchases
1952	86,000	0	80,000	0
1953	94,000	0	90,000	0
1954	170,000	0	140,000	50,000
1955	300,000	180,000	200,000	100,000
1956	300,000	180,000	200,000	100,000
1957	300,000	180,000	200,000	100,000
1958	300,000	180,000	200,000	100,000
1959	300,000	180,000	0	0
Total	1,850,000	900,000	1,110,000	450,000

Both offers contemplate that the metal would be offered for sale to commercial buyers at the going United States prices, duty paid (the duty is $30 per ton) with the proviso that this price could be increased to the extent of any increase in the United States duty and by any amount by which freight to destination exceeded 1 cent per pound. The United States would have the right to cancel any portion of its obligation by the payment of 5 cents per pound. There are other less important terms which I shall omit here.

It will be noticed that the second offer cuts off the proposed obligation of the United States Government at the end of 1958 as contrasted with the year 1959 in the original offer. This was done to bring the proposed underwriting by the United States Government more closely in line with similar underwritings given by the Government to Alcoa, Reynolds and Kaiser, most of which expire during the year 1958. The Aluminum Company of Canada has informally indicated that it would be prepared to discuss with the United States Government at any time in the future, further calls on any additional expansion in its productive capacity. They have also advised me that the magnitude of any arrangement in terms of amounts of metal was open to discussion. Their attitude has been very cooperative and is based, in general, on a desire to meet whatever needs the United States Government is prepared to express. Prior to the expiration of the latest offer on May 18, 1952, we advised the Aluminum Company of Canada that we did not propose to accept that offer as made, but that we would like to discuss with the company at an early date possible modified arrangements.

As you know, on April 14, 1952, DPA issued a press release stating that we would be interested in knowing the extent to which any business enterprise in the United States were interested in going into the aluminum business and under what conditions. This was designed to give us an opinion as to the extent to which and under what conditions the Government could, if it wished to do so, sponsor further American production either as an alternative to the Canadian offer or in addition to it. In making this announcement, you stated that if we should sponsor an expansion in the United States, the Government would prefer new producers as distinguished from the existing three producers, plus the newcomer, Anaconda. It was not to be expected that many firm and specific proposals would be made at once, pursuant to this press release.

As a result of this press release, we have been approached by several independent interests, in some cases informally, who have expressed varying degrees of interest in entering the aluminum metal business. I have reported to you the details of these conversations, but since you may wish to make this memorandum available publicly, it is considered inappropriate for obvious reasons, to recite the detailed facts herein. It is my opinion, however, based upon these conversations, that it may be possible to arrange for some additional production in the United States by independent producers on terms which the Government could accept. The criteria which presumably will guide us in large measure in deciding these questions have already been publicized by you in your letter of January 21, 1952, to Congressman Emanuel Celler.

In addition to these discussions with independent new interests, Alcoa, Reynolds and Kaiser have each indicated that they would be prepared to expand their facilities further or to build new facilities at our request and under appropriate terms. Reynolds has suggested informally the possibility of approximately doubling (to 95,000 tons annual capacity) its Lister Hill facility. No specific terms were suggested but it is presumed that they would parallel those of the current expansion. Alcoa has specifically proposed that it be authorized to proceed with the first half (200,000 tons annually) of the so-called Taiya project in Alaska, utilizing diverted waters from British Columbia and Yukon Territory to a hydro electric power plant in Alaska, next to which would be located an aluminum reduction plant. The conditions suggested by Alcoa are very moderate as to percentage of accelerated amortization. It has also not requested that the United States Government enter into a supply contract committing the Government to purchase the output of the plant, but has requested an opportunity to supply an equitable portion of any purchases by the stockpile (on its own initiative) from the United States producers, as well as a commitment by the United States Government to offer to buy from Alcoa further amounts equal to any foreign metal purchased by the stockpile. It has further offered to the Government a call on any of the output of Taiya for 5 years for the stockpile and has agreed to offer for 20 years 25 percent of the output to nonintegrated users of aluminum.

The carrying out of the Taiya project would involve water agreements with the Dominion Provincial and territorial authorities, as well as certain congressional actions with respect to Alaska. Construction would require 4 years. Security questions would have to be examined.

CANADIAN METAL

Quite apart from whether we proceed to secure additional production from American sources, an arrangement to secure additional aluminum from Canada appears to have certain advantages. As we have discussed these matters extensively, I will only summarize the main points below.

1. The Aluminum Company of Canada is not a fabricator in the United States and, accordingly, is a source of metal for independent fabricators here which is not their competitor. Almost all of the aluminum fabricators consulted in connection with this investigation tend to prefer a source of metal other than from their competitor in the fabricating field, on the theory that the American primary producers understandably prefer to fabricate their own alluminum to the maximum extent of their sales capacity, rather than to sell their aluminum as pig or ingot to other fabricators. Thus, when there is a metal shortage in relation to fabricating capacity, the independent fabricators believe that the primary producers will favor their own fabricating facilities. This opinion seems to be widespread in spite of the fact that the present supply contracts with the American producers provide that during the first five years they must offer to independent fabricators two-thirds of the new metal, and for a period of 15 years thereafter, one-fourth of the new metal.

2. Additional metal from Canada may involve expansion of Canadian production facilities. This expansion, if it takes place, will, however, put no strain on the equipment industry of the United States, now rather fully loaded, as all but a negligible portion of the equipment and materials will be obtained in Canada.

3. To the extent that an arrangement with Alcan involves a contingent commitment on the part of the United States to purchase some portion of the metal exported to the United States which cannot find commercial buyers, such metal will be acquired by the United States at a price 1½ cents per pound below the going American price because of the duty. Thus, from the standpoint of metal flowing into a stockpile, the Canadian metal would be the cheapest. A possible offset to this are, of course, the taxes paid by alternative American producers.

4. Canada's economy is so intimately related to that of the United States that on broad principles of relations with our northern neighbor, a constructive arrangement between us with respect to aluminum which will benefit both countries, has everything to recommend it.

5. Almost all authorities agree that during the next few decades, from an economic as distinguished from a security standpoint, aluminum production should increasingly come from less developed areas possessing good power resources not needed for industrial loads. If this is a correct assessment of the economic trend, and I believe it is, it seems to me almost inevitable that American aluminum supplies will, in the end, come increasingly from foreign or Alaskan sources so that our own power resources can be used for those loads which can afford to pay higher rates.

CONCLUSIONS AND RECOMMENDATIONS

In our discussions of this question over the last few months, you have repeatedly emphasized and I agree, that one of the factors which ought to bulk large in a decision whether or not to further appreciably enlarge our prospective supplies of aluminum, should be a good estimate of the probable requirements for aluminum in the event of war. We do not have that knowledge now with any degree of accuracy, as I have pointed out in this memorandum. We will probably not get any figures entitled to be taken very seriously until some time later this year, although some preliminary data subject to further review and feasibility testing may be available before that time. If we knew today that the aluminum system as it is now planned was quite clearly inadequate to support the requirements in the event of war, even the peak requirements in the third year of a war, I believe, as you do, that we would be on sounder ground in making a decision as to the magnitude of a further needed expansion, if any.

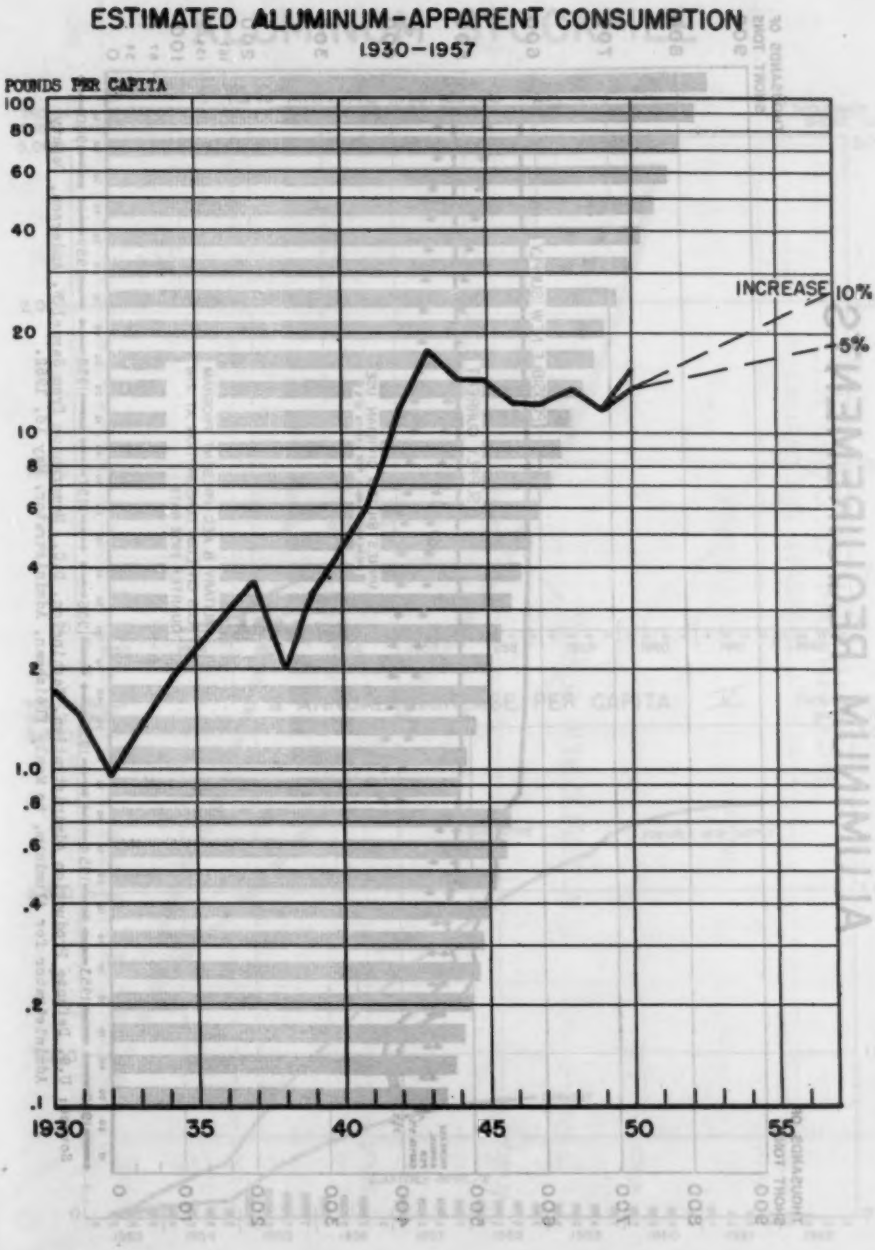
I think the evidence is quite clear that we do not have enough aluminum in sight today to make it possible for us in any orderly manner to get what I believe should be our eventful stockpile—say 2½ million tons. I rather doubt that, with our present supplies, we will in the next few years succeed in stockpiling as much as a million tons without unduly prolonging controls and engaging in a degree of competition with civilian economy, which I consider to be undesirable, as well as continuing the subsidizing of high cost metal for a long period, a practice I think basically unsound. I, therefore, think that until we are able to test the forecasts of aluminum requirements in the event of all-out war, any decisions that we make now should be moderate and based largely on the desirability of improving somewhat our chances and easing our road in getting a respectable stockpile. I believe that 6 months or so from now it may be possible to reassess this whole question and discover whether there can be added to any arguments then valid in favor of further expansion, the highly important question of war requirements.

In the light of these considerations, I recommend that we proceed at this time to discuss with the Aluminum Company of Canada a contract somewhat along the lines of their last offer, but contemplating a minimum level of exports to the United States of about 170,000 to 175,000 tons, as compared to the 200,000 tons stipulated in the last offer. This would mean a net addition to our metal supply of about 70,000 to 75,000 tons. I also recommend that if suitable contractors can be found, that we authorize new American aluminum metal facilities to the extent of about 75,000 to 80,000 tons annual capacity. The selection of the American contractors should be on the basis of the most advantageous terms to the Government, having in mind the competence of the contractors. I recommend that we do not authorize further expansion of the present primary producers, including the Taiya project, at this time, unless no suitable alternative is available to the Government.

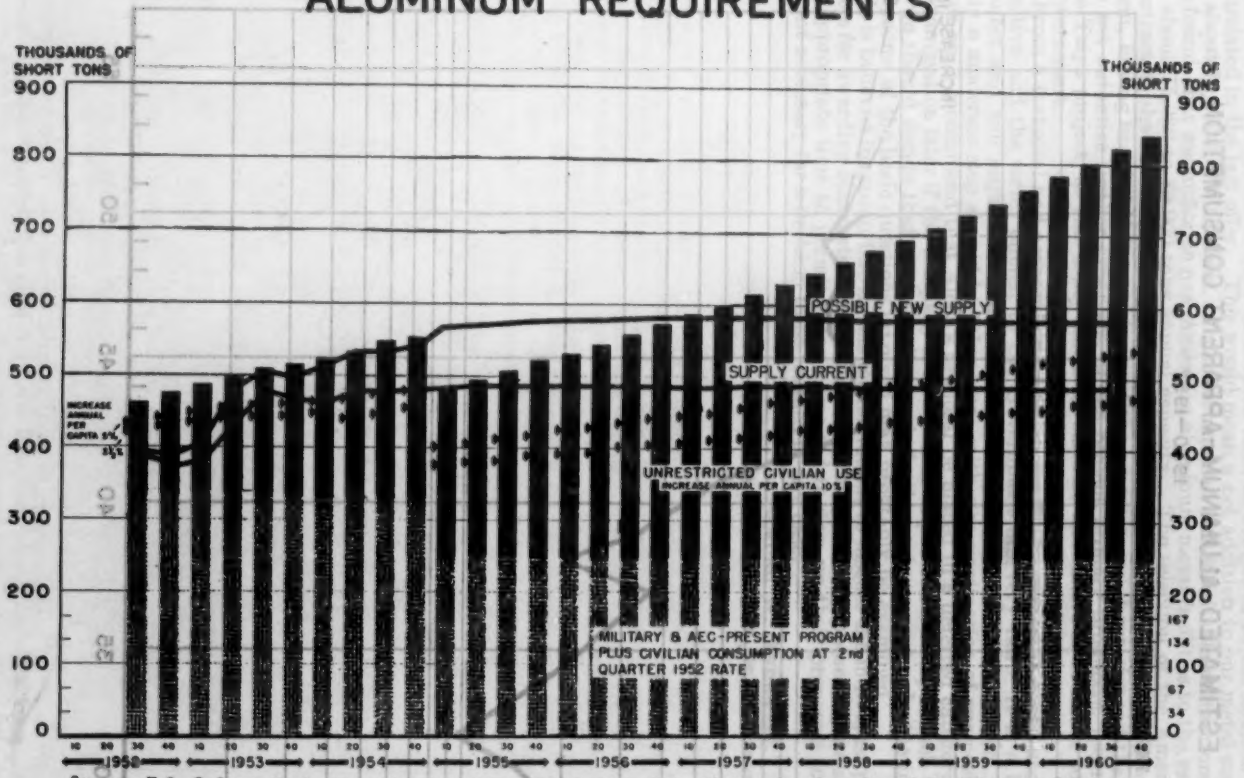
From a technical and economic standpoint, the Taiya project is sound and attractive and the terms offered to the Government are very fair. It is a large project and will require several time-consuming steps. Since we believe that only a moderate step should be taken now, with a reexamination of our position later on, I recommend that Alcoa's proposal be placed in a deferred category for reexamination later if the company is still willing to proceed with it, at such time as we should decide that our capacity needs further enlargement. In the interval, some of the basic questions involved may profitably be examined.

It is believed inappropriate in this memorandum to discuss the individual prospects for awarding contracts to new American producers. I propose that we allow an appropriate time to permit those interested to firm up their proposals to the extent necessary for a decision to be reached in any case.

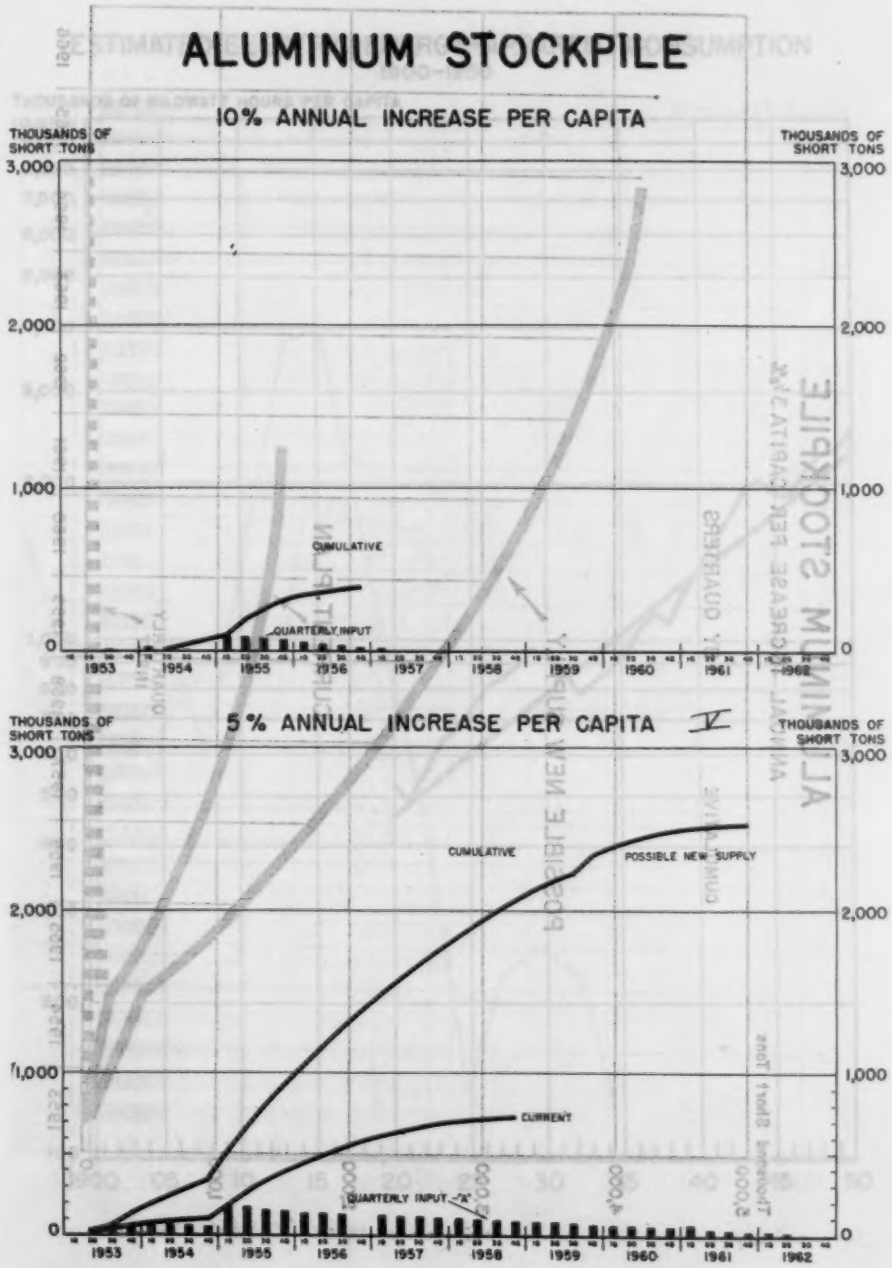
SAMUEL W. ANDERSON,
Deputy Administrator for Aluminum.

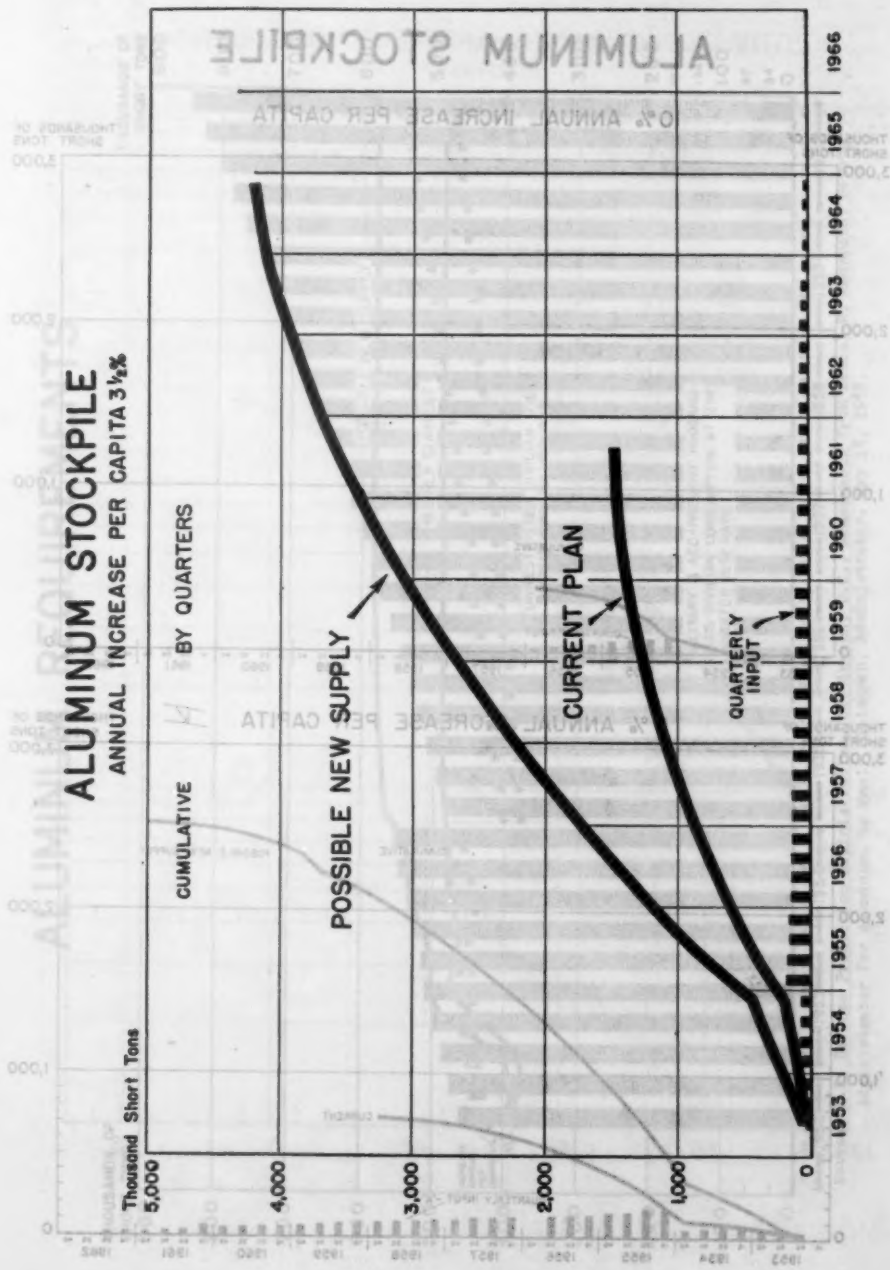

ESTIMATED ALUMINUM-APPARENT CONSUMPTION
1930-1957
POUNDS PER CAPITA
100
80
60
40
20
10
8
6
4
2
1.0
.8
.6
.4
.2
.1
INCREASE 10%
5%
1930
35
40
45
50
55

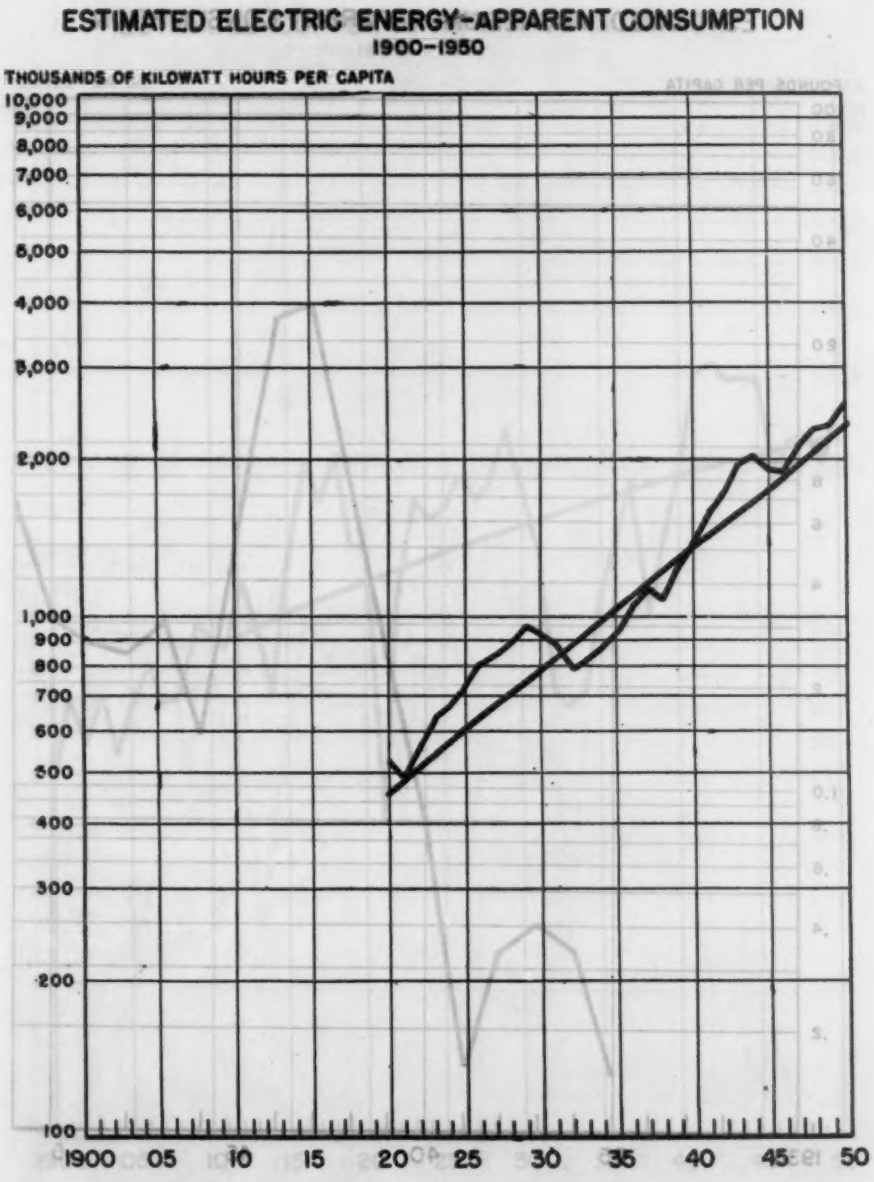
ALUMINUM REQUIREMENTS

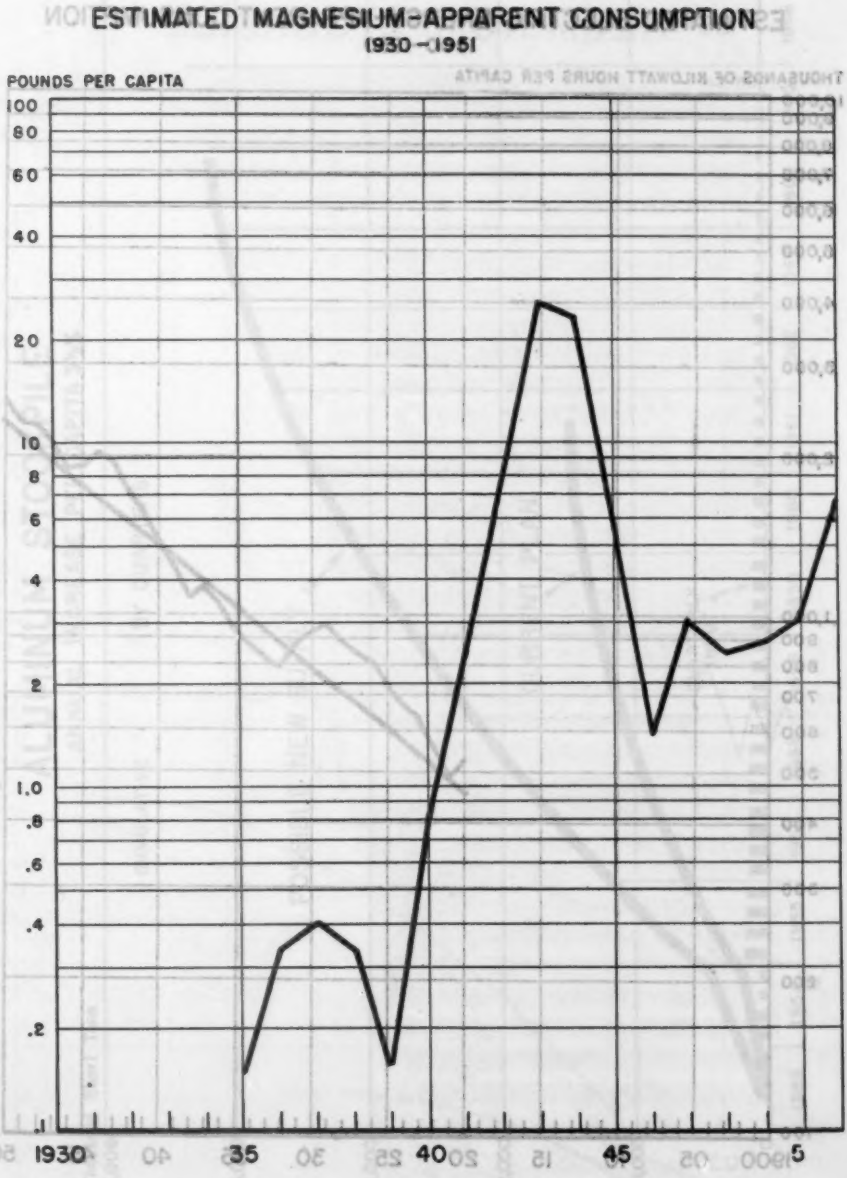


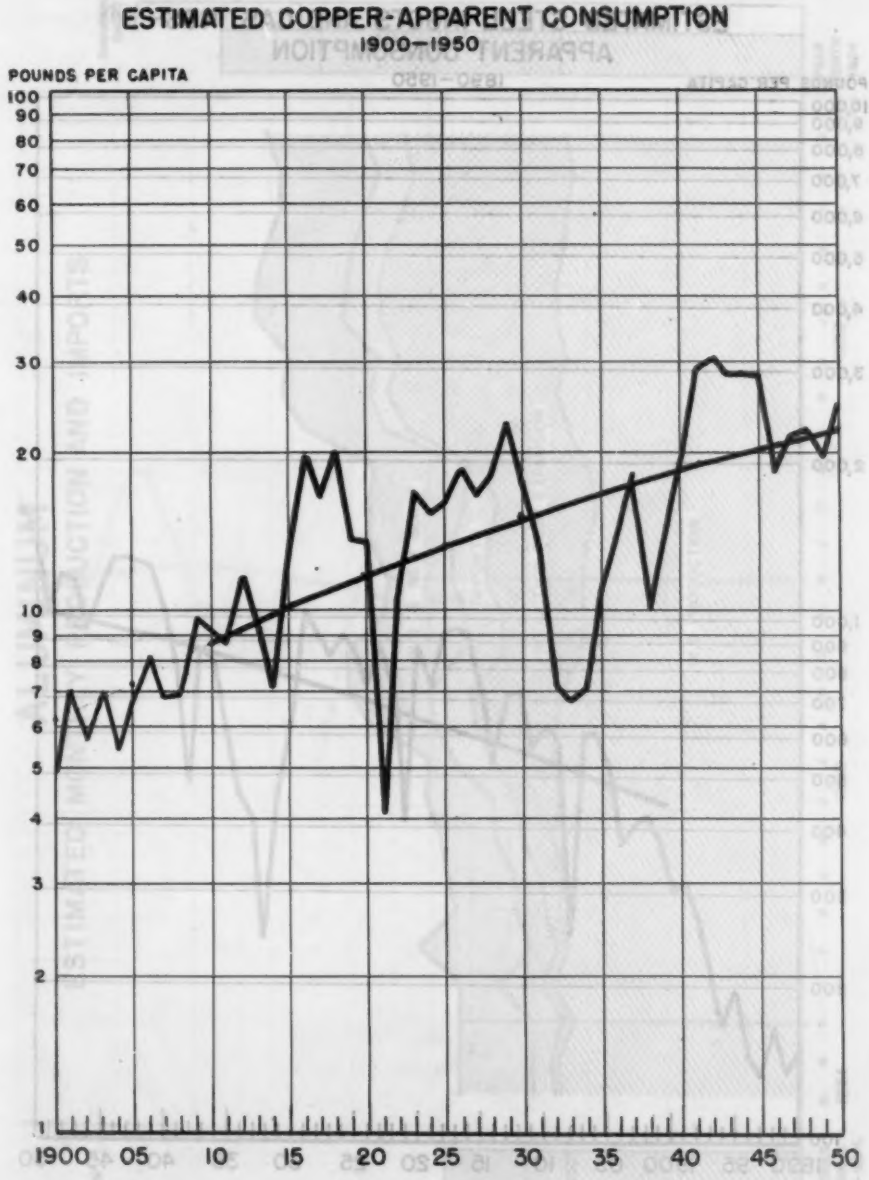
Source: U.S. Defense Production Administration, Washington, D.C., Memorandum from Samuel W. Anderson, Deputy Administrator for Aluminum, to Manly Fleishman, Administrator, May 16, 1952.

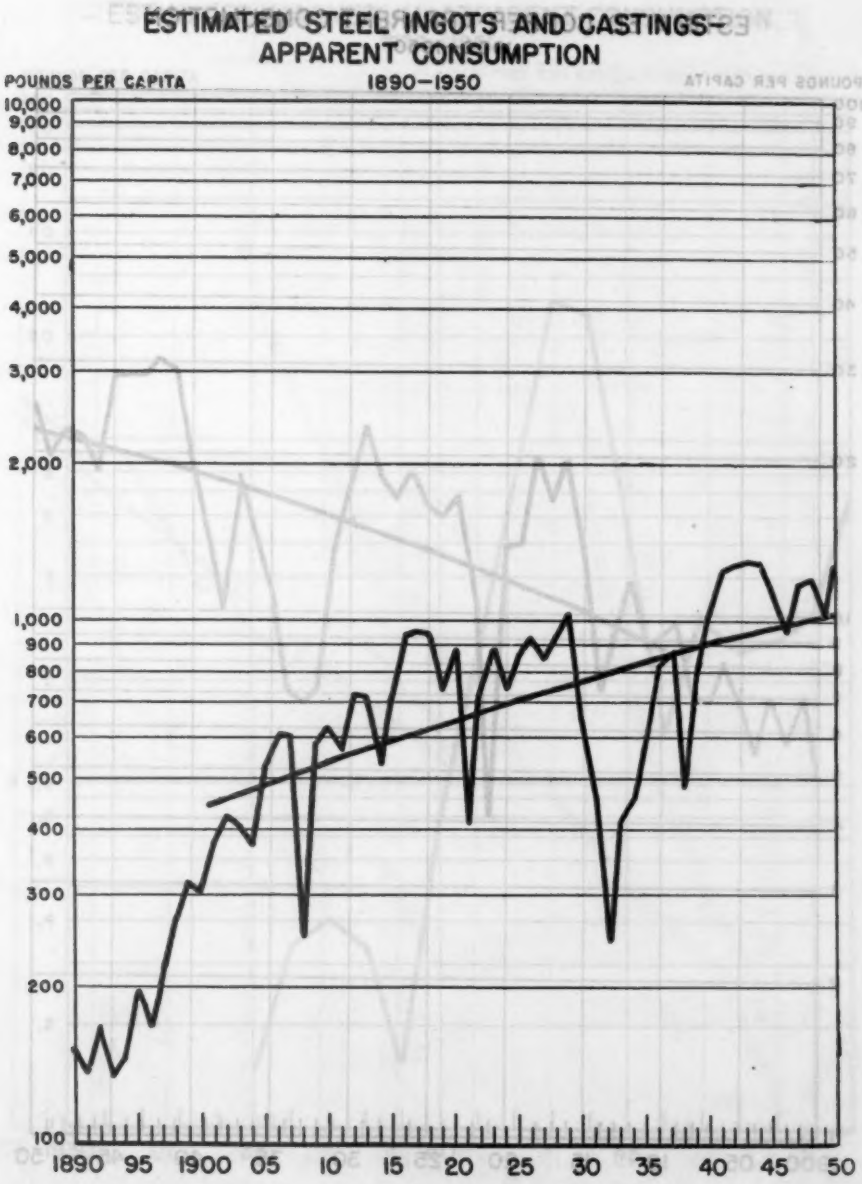

ALUMINUM STOCKPILE
10% ANNUAL INCREASE PER CAPITA
THOUSANDS OF SHORT TONS
3,000
2,000
1,000
0
CUMULATIVE
QUARTERLY INPUT
1953
1954
1955
1956
1957
1958
1959
1960
1961
1962
5% ANNUAL INCREASE PER CAPITA
CUMULATIVE
POSSIBLE NEW SUPPLY
CURRENT
QUARTERLY INPUT "A"

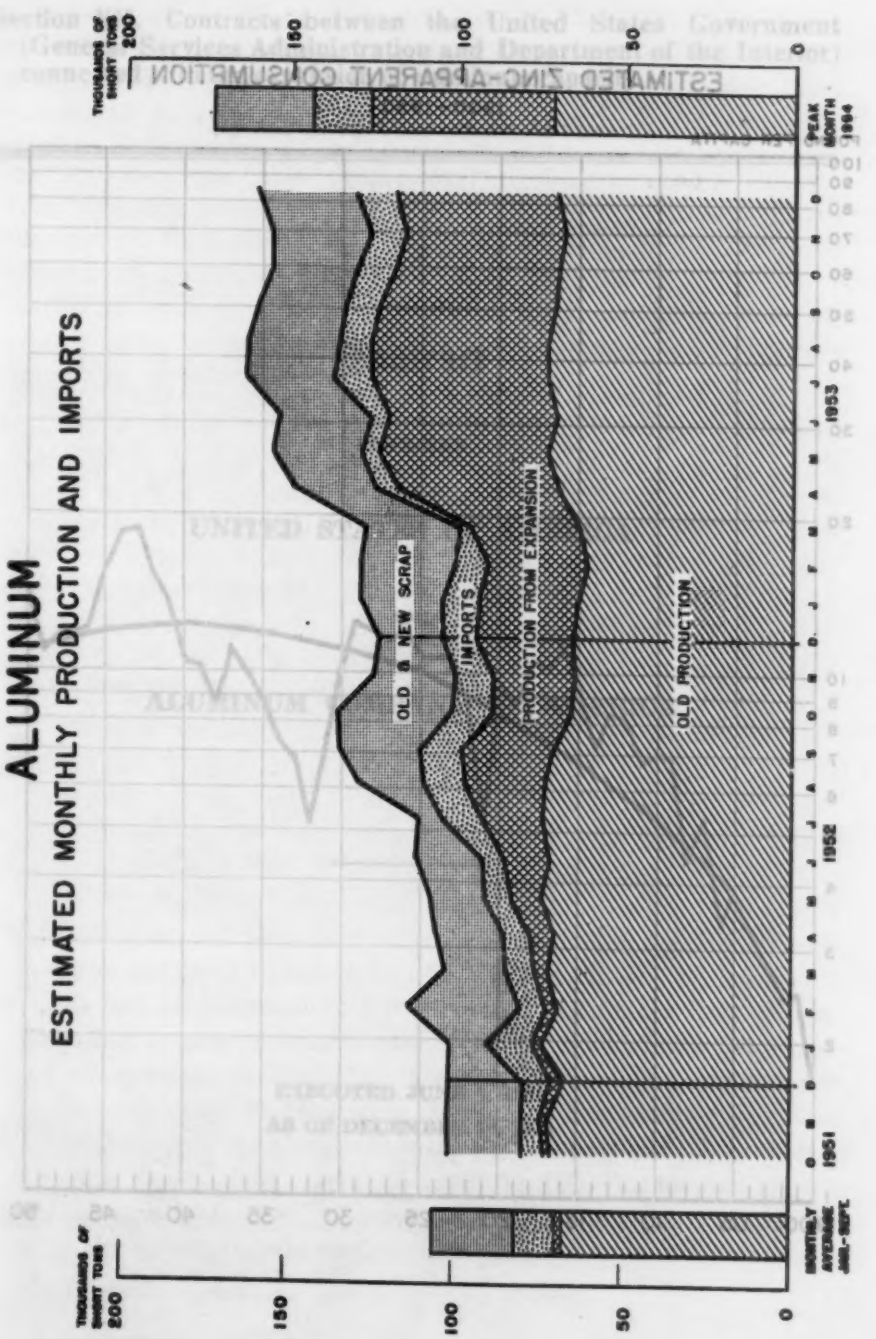

ALUMINUM STOCKPILE
ANNUAL INCREASE PER CAPITA 3½%
BY QUARTERS
CUMULATIVE
Thousand Short Tons
5,000
4,000
3,000
2,000
1,000
0
POSSIBLE NEW SUPPLY
CURRENT PLAN
QUARTERLY INPUT
1953
1954
1955
1956
1957
1958
1959
1960
1961
1962
1963
1964
1965
1966

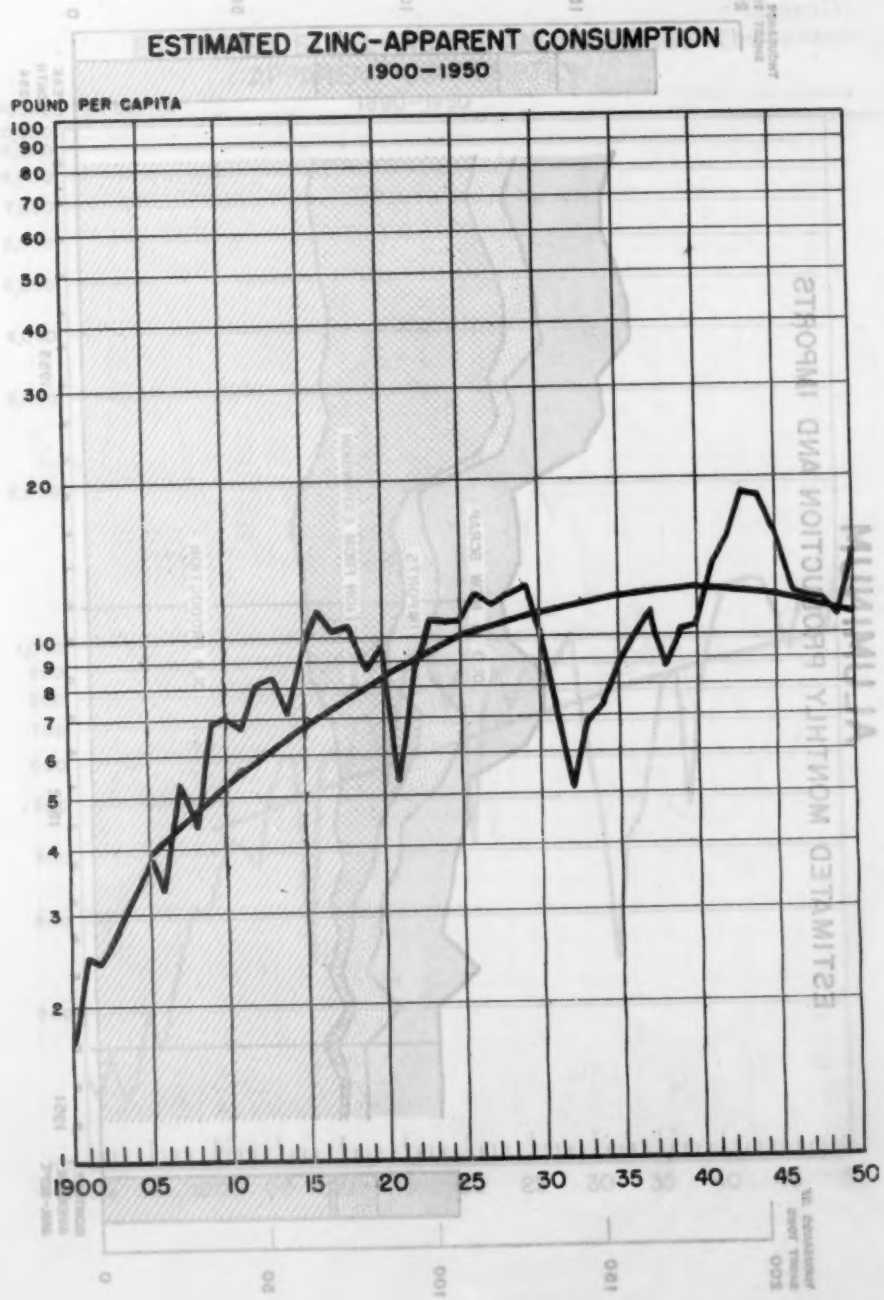

ESTIMATED ELECTRIC ENERGY-APPARENT CONSUMPTION
1900–1950
THOUSANDS OF KILOWATT HOURS PER CAPITA
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
900
800
700
600
500
400
300
200
100
1900
05
10
15
20
25
30
35
40
45
50


ESTIMATED MAGNESIUM-APPARENT CONSUMPTION
1930-1951
POUNDS PER CAPITA
100
80
60
40
20
10
8
6
4
2
1.0
.8
.6
.4
.2
.1
1930
35
40
45


ESTIMATED COPPER-APPARENT CONSUMPTION
1900—1950
POUNDS PER CAPITA
100
90
80
70
60
50
40
30
20
10
9
8
7
6
5
4
3
2
1
1900
05
10
15
20
25
30
35
40
45
50


ESTIMATED STEEL INGOTS AND CASTINGS–
APPARENT CONSUMPTION
1890–1950
POUNDS PER CAPITA
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
900
800
700
600
500
400
300
200
100
1890
95
1900
05
10
15
20
25
30
35
40
45
50


ALUMINUM
ESTIMATED MONTHLY PRODUCTION AND IMPORTS
THOUSANDS OF SHORT TONS
200
150
100
50
0
OLD & NEW SCRAP
IMPORTS
PRODUCTION FROM EXPANSION
OLD PRODUCTION
MONTHLY AVERAGE JAN.-SEPT.
PEAK MONTH 1954
1951
1952
1953
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D


ESTIMATED ZINC-APPARENT CONSUMPTION
1900–1950
POUND PER CAPITA
100
90
80
70
60
50
40
30
20
10
9
8
7
6
5
4
3
2
1
1900
05
10
15
20
25
30
35
40
45
50

Section VII. Contracts between the United States Government (General Services Administration and Department of the Interior) connected with the expansion of aluminum capacity

(1) Aluminum Company of America

Contract

BETWEEN

UNITED STATES OF AMERICA

AND

ALUMINUM COMPANY OF AMERICA

EXECUTED JUNE 7, 1951

AS OF DECEMBER 19, 1950

Smith Bros. Co. Inc., Law Printers, 434-436 Boulevard of Allies, Pittsburgh, Pa.

70669 O—56—pt. 2——15

CONTRACT

THIS CONTRACT, entered into as of the 19th day of December, 1950, by the UNITED STATES OF AMERICA, herein called the Government, acting through the Administrator of General Services, herein called the Administrator, and ALUMINUM COMPANY OF AMERICA, a corporation existing under the laws of the Commonwealth of Pennsylvania, herein called the Contractor,

WITNESSETH:

ARTICLE I.

Sale and Purchase of Aluminum.

Subject to the terms and conditions hereof, Contractor agrees to produce and sell, and the Government guarantees the disposition of, six hundred thousand (600,000) short tons of 2,000 pounds each, of primary aluminum pig, said primary aluminum to be of a minimum grade of ninety-nine per cent (99%) aluminum, which primary aluminum is herein called the "additional production". The Contractor will produce said aluminum from additional facilities, which it agrees herein to construct, such facilities being herein sometimes called the "additional facilities". Such production and sale shall commence upon the date of completion of construction of the additional facilities (as such completion is hereinafter defined) and shall continue thereafter at a rate of approximately one hundred twenty thousand (120,000) short tons per year, except that for the first six months of operation after the date of completion of the additional facilities, production may be at such lesser rate as may be necessarily inherent in newly constructed facilities. Such production and sale shall continue until six hundred thousand (600,000) short tons of aluminum have been so produced from the additional facilities after the date of completion of construction and shall be completed within a period of six years after said date of completion, but in no event later than July 1, 1958, unless extended as hereinafter provided in ARTICLE XII. The date of completion of construction of the additional facilities shall be the first day upon which ninety per cent (90%) of the electrolytic cells, which are to be constructed as a part of the additional facilities, are tapped. Upon the occurrence of such event, the Contractor shall forthwith issue a

certificate to the Government certifying such date to be the date of said completion.

ARTICLE II.

Construction of Additional Facilities.

The Contractor shall proceed without delay to acquire and construct the additional facilities to be used for the production of said aluminum. Such additional facilities shall include (a) additional aluminum smelting facilities consisting of (i) the addition of two potlines, with such power and related facilities as the Contractor may consider necessary, at the Contractor's existing aluminum smelting plant at Point Comfort, Texas, (ii) an aluminum smelting plant, with such power and related facilities as the Contractor may consider necessary, to be located near Wenatchee in the State of Washington, and (b) additional alumina facilities consisting of an alumina production plant having a capacity of approximately eleven-hundred (1,100) tons per day, and such related facilities as the Contractor may consider necessary, to be located in the State of Arkansas, each as more fully described in certifications from the Secretary of the Interior to the Administrator of General Services, dated December 11, 1950, January 4, 1951, and January 23, 1951, and in a certification from the Defense Production Administration to the Administrator of General Services, dated May 17, 1951, copies of which certifications are attached hereto and made a part hereof as exhibits A, B, C and D, respectively. As used in this contract, the terms "additional facilities", "additional aluminum smelting facilities" and "additional alumina facilities" shall have the meaning set forth in this ARTICLE II.

ARTICLE III.

Disposition of Production From Additional Aluminum Smelting Facilities.

Commencing with the date of completion of the additional facilities, and continuing until the completion or termination of this contract, and subject to such priorities in delivery as may be required pursuant to law, the additional production from the additional facilities shall be disposed of as follows:

1. GOVERNMENT REQUIREMENTS.

(a) CALL ON ADDITIONAL ALUMINUM PRODUCTION. The Government may require the Contractor to sell to it, at the price provided in paragraph 1 of ARTICLE XI, all or any of the additional aluminum production for each consecutive six-month period during the continuance of this agreement, the first such period commencing with the date of completion of the additional facilities.

(b) INITIAL NOTICE AND SALES. At least ninety (90) days before the date on which the Contractor estimates the additional facilities will be completed, it shall advise the Government of the estimated date of completion and of the amount of the additional aluminum production it estimates it will produce from the additional facilities during the first six months after completion. It is recognized that, after the facilities are completed within the meaning of this agreement, additional time thereafter will be required to bring the aluminum smelting pots to full capacity, and that production for the first six months after completion of a plant may be less than the production in subsequent six-month periods. Within thirty (30) days after receipt of such notice, the Government shall notify the Contractor in writing of the amount of aluminum it elects to purchase during the said first six-month period. The notice shall be a firm order for the purchase of the quantity stated, and deliveries to the Government shall commence as soon as practical after the date of completion of the additional facilities. Notwithstanding such estimate, the Contractor shall not be obligated to deliver to the Government aluminum in excess of the amount produced from the additional facilities during said period.

(c) SUBSEQUENT NOTICES AND SALES. Thereafter, at least ninety (90) days prior to the beginning of each subsequent six-month period during the continuance of this agreement, the Government shall give notice in writing to the Contractor of the amount of the additional aluminum production it elects to purchase for such period. Each such notice, when given, shall be a firm order for the purchase of the quantity stated. If no notice is given within the time provided in the preceding sentence, the Contractor shall be under no obligation to deliver aluminum to the Government pursuant to this

paragraph 1 (c) of ARTICLE III during the following six-month period.

(d) COMPLIANCE WITH STOCKPILE SPECIFICATIONS. The Government shall in each such notice specify the amount of aluminum it desires to have comply with the national stockpile material purchase specification current at the time of such notice. Thereafter, the Contractor shall deliver such quantities in accordance with such specification, *provided* that (i) the Contractor shall not be required under this paragraph 1(d) of ARTICLE III to deliver metal meeting a specification more burdensome than Munitions Board purchase specification P-62 in effect at the date of this contract, and (ii) the Government may not order more than twenty thousand (20,000) short tons of aluminum which are required to meet the stockpile specification in any six-month period, or proportionate amounts in lesser periods.

(e) EQUITABLE ALLOCATION AMONG DOMESTIC PRODUCERS. It is the intent of the parties that the Administrator will exercise the Government's right to purchase aluminum under this paragraph 1 of ARTICLE III so as to purchase approximately equal percentages of the additional production produced by the Contractor, by Kaiser Aluminum & Chemical Corporation and by Reynolds Metals Company, respectively, under this program of expanded aluminum production; and the Administrator agrees that insofar as practicable, the Government will not purchase from the Contractor under this paragraph 1 of ARTICLE III quantities which are inequitable to the Contractor in the light of the quantities being purchased from such other companies, *provided,* that the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this paragraph 1(e) of ARTICLE III.

(f) MONTHLY DELIVERIES. Deliveries under all orders pursuant to this paragraph 1 of ARTICLE III shall be made in approximately equal monthly quantities, unless a different delivery schedule is specified in the Government's notice, *provided,* that the Government shall not specify for delivery in any one month a quantity greater than one month's productive capacity of the additional facilities.

2. SALES TO NON-INTEGRATED USERS.

(a) AMOUNT AND NOTICE. For each consecutive six-month period referred to in paragraph 1 of this ARTICLE III, the Contractor shall offer for sale to non-integrated users on the terms and conditions provided for in paragraph 1 of ARTICLE XI, aluminum pig or ingot in the aggregate quantity, if any, by which the amount ordered by the Government for the said six-month period, in accordance with paragraph 1 of this ARTICLE III, is less than two-thirds of the reasonably estimated additional production for such period. As used in this agreement, the term "non-integrated user" shall mean any manufacturer, fabricator, finisher or producer of aluminum in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing aluminum hereunder for his own manufacturing, fabricating, finishing or producing operations. Said offer to sell aluminum pig or ingot to non-integrated users shall be made for a period of at least thirty (30) days and shall be made by publishing a notice in the metal trades journal known as "The American Metal Market" or by such other method as the Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during a period of thirty (30) days from the date of first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least thirty (30) days prior to the beginning of the first six-month period and at least sixty (60) days prior to the beginning of each subsequent six-month period.

(b) TERMS OF SALE. All orders shall be subject to the Contractor's acceptance, to its approval of the credit of the purchaser and to its standard terms and conditions of sale then in effect. Subject to the provisions of the foregoing sentence, the Contractor shall accept, on a first-come, first-served basis, orders from non-integrated users sufficient to equal the quantity thus offered for sale as provided in paragraph 2(a) of this ARTICLE III, but thereafter the Contractor shall have no obligation to accept any further orders from non-integrated users for the period. Nothing herein shall prohibit the Contractor from reducing the quantity of any order

which it considers disproportionately large in relation to the other orders it has received from other non-integrated users for such period. If, pursuant to the terms of paragraph 2(a) of this ARTICLE III, the amount of aluminum which the Contractor is obligated to offer for sale to such non-integrated users is zero, then the Contractor need not publish the notice or make the offer to non-integrated users referred to above. Nothing in this paragraph 2 of ARTICLE III is intended to affect or prejudice the Contractor's privilege first to sell or offer for sale to industry aluminum produced from its other facilities.

(c) ENFORCEMENT BY THE GOVERNMENT. It is understood and agreed that (i) the Government may enforce the provisions of this paragraph 2 of ARTICLE III in its own name by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected, but not including consequential damages, and (ii) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(d) CONTRACT COMMITMENTS. It is recognized that the Contractor has made and intends in the future to make contracts with customers who are non-integrated users for the delivery of aluminum pig, ingots and billets which may be produced from the additional facilities. The maximum quantity of aluminum which the Contractor may be obligated to deliver pursuant to such commitments for any applicable six-month period may be deducted from the quantity which the Contractor is obligated to make available to other non-integrated users for such six-month period under this paragraph 2 of ARTICLE III, *provided,* that the Contractor may not so deduct any quantities to be delivered pursuant to any contract which requires the Contractor to deliver in excess of five hundred thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Administrator. The Administrator shall be deemed to have approved any such contract unless he disapproves the same and so notifies the Contractor in writing within fifteen (15) days after written notice has been received by him of the terms of

such contract. Any quantity so deducted by the Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such six-month period, shall be added to the quantity which the Contractor is obligated to offer to non-integrated users during the subsequent six-month period.

(e) REVIEW OF GOVERNMENT ORDERS. If, after receiving the notice from the Government of the amount of aluminum it elects to purchase, as provided in paragraph 1 of this ARTICLE III, the Contractor finds that the quantity ordered by the Government for any six-month period is such that it may be impossible for the Contractor to fulfill its prior commitments to such other customers as are non-integrated users, the Contractor may advise the Administrator of such fact. The Administrator shall thereupon review the quantity ordered by the Government and, if under all of the circumstances the Administrator considers it advisable, he may reduce the quantity ordered by the Government.

3. SALES TO THE GOVERNMENT OF UNSOLD OR UNUTILIZED ADDITIONAL PRODUCTION.

Any quantity of additional production not disposed of in accordance with paragraphs 1 and 2 of this ARTICLE III, and not otherwise sold or utilized by the Contractor, may be tendered to the Government in the form of pig only during each consecutive twelve-month period (the first such period commencing with the date of completion of the additional aluminum-producing facilities). Such tender or tenders shall be made during the first ten (10) days of any calendar month during such period and during the first ten (10) days following the expiration of such period, and all such tenders shall be considered to be applicable to such period. The Government shall purchase the amount so tendered at the price specified in paragraph 2 of ARTICLE XI. The Government shall not be required to buy under this paragraph 3 of ARTICLE III, for any twelve-month period specified in said paragraph, more than the actual output of the additional aluminum-producing facilities during such period, less the quantity of such additional production disposed of under paragraphs 1 and 2 of this ARTICLE III or otherwise sold or utilized by Contractor, *provided,* that in such computation the Contractor's right of substitution under paragraph 2 of ARTICLE VI is recognized.

4. AGGREGATE OBLIGATION TO SELL.

In no event, except as provided in ARTICLE VII and ARTICLE IX, shall the Government be obligated to order or purchase, or the Contractor be obligated to accept orders from either the Government or non-integrated users for an amount of aluminum which, added to the prior production sold or utilized by the Contractor of aluminum from the additional facilities after the date of completion of such facilities, exceeds six hundred thousand (600,000) short tons.

ARTICLE IV.

Sale of Production Before Completion of Additional Facilities.

The Government may require the sale to it of all or any part of the aluminum produced from the additional facilities from the date of the beginning of commercial production and prior to the date of completion of the facilities. Such sale shall be at the price provided in paragraph 1 of ARTICLE XI. When the Contractor is reasonably able to do so, and between ninety (90) days and sixty (60) days before the date the Contractor estimates commercial production will begin, it shall advise the Government of the time when it estimates that aluminum will first be produced commercially at the additional facilities and of the quantity which it estimates will be produced from such time until the date of completion of the facilities. Between sixty (60) days and thirty (30) days prior to the estimated date when aluminum will first be produced commercially, the Government shall notify the Contractor in writing of the amount of such metal it desires to purchase, which notice shall be a firm order by the Government to purchase the quantity of aluminum specified therein at the price and upon the terms and conditions set forth in paragraph 1 of ARTICLE XI for the sale of aluminum to the Government after completion of the additional facilities, *provided,* that during such period the Contractor shall not be required to deliver any aluminum of stockpile specifications beyond its reasonable ability to do so during said period, or any aluminum in an amount exceeding the production of the additional facilities. The Contractor shall offer in pig or ingot form for sale to non-integrated users, on the terms and conditions provided in paragraph 1 of ARTICLE XI, the quantity, if any, by which the amount ordered by the Government for said period is less than two-thirds of the estimated production from the additional facilities for such period, sub-

ject to the terms and conditions of paragraph 2 of ARTICLE III. Any quantity of aluminum produced or sold during this period shall not reduce the quantities otherwise specified in this contract, and specifically shall not be included as a portion of the six hundred thousand (600,000) tons specified in ARTICLE I, nor included in the three hundred thousand (300,000) tons specified in paragraph 1 of ARTICLE VIII.

ARTICLE V.

Payment for Aluminum Delivered to Government.

The Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

ARTICLE VI.

Relationship of Additional to Existing Facilities.

1. GOVERNMENT COMMITMENTS LIMITED TO PRODUCTION FROM ADDITIONAL FACILITIES.

It is the intention of this contract that the Government, by agreeing to purchase aluminum from the additional facilities as herein provided, guarantees the disposition of the entire output of the additional facilities to the extent of the six hundred thousand (600,000) ton quantity specified in ARTICLE I, subject to its right of termination as provided in paragraph 1 of ARTICLE VIII. In this connection, it is recognized that the Contractor now has other aluminum smelting facilities and in the future may acquire further aluminum smelting facilities other than those to be constructed under this contract. It is understood that except as to orders from the Government expressly placed pursuant to this contract for aluminum to be produced from the additional facilities, the Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such other facilities, before disposing of or utilizing aluminum from the additional facilities, and that, in accordance with paragraph 3 of ARTICLE III, the Government will purchase from the Contractor all of the production from the additional facilities not otherwise disposed of or utilized by the Contractor. The Government does not, by this

contract, guarantee or agree to purchase production from other facilities.

2. DELIVERIES OF SUBSTITUTED ALUMINUM.

Without affecting the rights and duties of the parties as set forth in paragraph 1 of this ARTICLE VI, deliveries to the Government and to non-integrated users pursuant to ARTICLES III, IV, VII and IX of this contract may, at the Contractor's option, be made by substituting aluminum produced from other facilities for aluminum actually produced from the additional facilities. In such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

3. FULFILLMENT OF CONTRACTUAL OBLIGATIONS FROM OTHER FACILITIES.

In the event that it becomes an economic burden for the Contractor to continue to operate some or all of the additional facilities, as well as its existing facilities, the Contractor may petition the Administrator, setting forth all of the facts and asking for the privilege of closing down all or any portion of the additional facilities that it considers uneconomic and of delivering from other facilities the aluminum to be delivered to the Government or the non-integrated users hereunder. Upon receipt of such petition, the Administrator shall give careful and due consideration to such request and grant such relief, if any, as he considers equitable to the Contractor, on such terms and conditions as he may determine, including, but not by way of limitation, a provision (a) that the Contractor continue to make aluminum available to non-integrated users in the quantities and under the terms and conditions set forth in paragraph 2 of ARTICLE III, and (b) if the Administrator deems it appropriate, that the Contractor shall not be subject to the provisions for purchase by the Government of all or part of the additional facilities under ARTICLE XV while and so long as the Contractor operates (or closes down) the additional facility or facilities to the extent and during the period specified by the Administrator in his grant of relief.

4. THE CONTRACTOR'S RIGHT TO UTILIZE THE OUTPUT OF ITS OTHER FACILITIES.

Except as provided in paragraphs 2 and 3 of this ARTICLE VI, nothing in this contract is intended to control the sale or use by the Contractor of aluminum produced from facilities other than

the additional facilities provided for hereunder or to direct the manner or extent of such sale or use.

ARTICLE VII.

Sale of Aluminum to Non-Integrated Users for Fifteen Years.

As an inducement to the Government to enter into this contract, and as part of the consideration therefor, the Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in ARTICLE I, or until any loan guaranteed by the Government pursuant to ARTICLE X is fully repaid, whichever shall be the longer, and provided that the Government does not exercise its right of termination, the Contractor will make available each year for sale to non-integrated users, under credit conditions as to each purchaser satisfactory to the Contractor, at the price stated in paragraph 1 of ARTICLE XI, a quantity of aluminum equal to twenty-five percent (25%) of the annual capacity of the additional aluminum smelting facilities, *provided,* that the obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of the Contractor's production year, make firm purchase commitments with the Contractor for specified quantities for such production year. Said aluminum will be offered on a first-come, first-served basis, except that in the event the Contractor for any year receives orders in excess of such twenty-five per cent (25%) nothing herein shall prohibit the Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this ARTICLE VII. Nothing contained in this ARTICLE VII shall require the Contractor to operate its additional facilities, but the Contractor shall be obligated to make available a quantity equal to twenty-five percent (25%) of the aluminum smelting capacity of such additional facilities whether or not said facilities are actually operated, *provided,* that this obligation may be postponed if and to the extent that the Contractor's failure to operate its additional facilities is the result of force majeure as defined in ARTICLE XII. It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that

event the measure of damages shall be the damages to non-integrated users affected, but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VIII.

Termination.

1. RIGHT OF THE GOVERNMENT TO TERMINATE.

The Government shall have the right to terminate this contract for its convenience upon or at any time after the additional facilities have produced three hundred thousand (300,000) short tons of aluminum subsequent to the date of completion of construction by giving to the Contractor a written notice of termination. Such notice shall state the date (hereinafter called the effective date of termination) upon which it is to become effective, which date shall be at least ninety (90) days after the date of its receipt by the Contractor. The termination of this contract, as provided in this ARTICLE VIII, shall not have the effect of cancelling or terminating any order placed by the Government for aluminum pursuant to paragraph 1 of ARTICLE III or any tenders made by the Contractor to the Government pursuant to paragraph 3 of ARTICLE III before the effective date of termination, to the extent that such aluminum has been produced prior to such effective date of termination. The Contractor's obligations to non-integrated users under paragraph 2 of ARTICLE III, ARTICLE IV and ARTICLE VII are automatically terminated as of the effective date of termination by the Government of its contract to purchase aluminum hereunder.

2. CANCELLATION PAYMENT TO THE CONTRACTOR.

If the Contractor, at any time after such termination and before the costs of all the groups of additional facilities to be constructed hereunder have been completely amortized or depreciated for Federal income tax purposes, notifies the Administrator that it intends to elect, with respect to any or all of said groups of facilities the cost of which has not been completely so amortized or depreciated, to avail itself of the provisions of Section 124A (g) of the Internal Revenue Code, as amended by Section 216 of the Revenue Act of 1950, and to receive a cancellation payment as defined

in Section 124A (g) (1) (A) with respect to such group or groups of facilities:

(a) TERMINATION PAYMENT CERTIFIED UNDER SECTION 124A(g) OF THE INTERNAL REVENUE CODE. The Contractor shall give written notice to the Administrator of its intention so to elect and thereupon there shall become due and payable from the Government to the Contractor a termination payment equal to the adjusted basis (as computed in the determination of amortization for Federal income tax purposes, pursuant to the provisions of Section 124A (e) of the Internal Revenue Code), of the additional facilities, or any one or more of the three units thereof as detailed in ARTICLE II, as of the beginning of the month in which such notice of intention to elect is given by the Contractor, *provided,* that no termination payment shall be made pursuant to this paragraph 2 (a) of ARTICLE VIII unless such payment is certified as provided in Section 124A(g) of the Internal Revenue Code. The election by the Contractor, referred to in this paragraph 2(a) of ARTICLE VIII, as to any one or more of said groups of facilities need not be made simultaneously but may be made at any time, or from time to time, as to any group until the cost of such group has been amortized to the extent of the adjusted basis thereof for amortization purposes as defined by Section 124A (e) of the Internal Revenue Code. It is the intent of the Administrator and the Contractor that any termination payment which may be made pursuant to the provisions of this paragraph 2(a) of ARTICLE VIII will be compensation to the Contractor for the unamortized cost of an emergency facility (also identified throughout this contract as an additional facility) because a contract with the United States involving the use of the facility has been terminated by its terms or by cancellation as provided in Section 124A(g) of the Internal Revenue Code, as amended by Section 216 of the Revenue Act of 1950, and the Administrator agrees to recommend to the certifying authority specified in Section 124A(g) of the Internal Revenue Code that such authority so certify.

(b) ALTERNATIVE TERMINATION PAYMENT. If the Contractor intends to elect to avail itself of the provisions of Section 124A(g) of the Internal Revenue Code in respect to any

group or groups of such emergency facilities (also identified throughout this contract as additional facilities), and has given written notice of such intention to the Administrator, but the certifying authority designated pursuant to the provisions of such Section does not, in respect to any one or more of such groups of emergency facilities, certify by the end of the Contractor's fiscal year in which such notice of intention to elect is made that the payment is a payment as compensation for the unamortized cost of an emergency facility made because a contract with the United States involving the use of such facility has been terminated by its terms or by cancellation, or if Section 124A(g) of the Internal Revenue Code shall have been repealed or modified before any termination payment authorized under paragraph 2(a) of this ARTICLE VIII is requested or received, then there shall become due and payable from the Government to the Contractor in respect to such group or groups of emergency facilities the cost of which shall not have been completely amortized or depreciated, upon the Contractor's written request therefor, a termination payment which shall be equal to the adjusted basis of such emergency facilities, as of the beginning of the month in which such notice of intention to elect is given by the Contractor, as computed in the determination of amortization for Federal income tax purposes, pursuant to the provisions of Section 124A (e) of the Internal Revenue Code, and which shall become due and payable in installments as follows: For the Contractor's fiscal year in which it gives notice of its intention to elect to receive a termination payment with respect to any such group of facilities, the Government shall pay to the Contractor an amount equal to the amortization deduction allowable with respect to such group or groups of facilities for Federal income tax purposes for the period commencing with the month in which the notice of intention to elect is given and ending with the close of such fiscal year, and said payment shall become due and payable as of the month in which such notice of intention to elect was given; and as of July 1 of each fiscal year of the Contractor thereafter, the Government shall pay to the Contractor an amount equal to the amortization deduction allowable with respect to such group or groups of facilities for Federal income tax purposes for such fiscal year reduced by an amount equal to the aggregate of the applicable production charges com-

puted under paragraph 2(c) of this ARTICLE VIII on the following basis:

(i) for the first fiscal year subsequent to the year in which notice of intention to elect to receive a cancellation payment is given, on each ton of aluminum and of alumina produced from the additional facilities, between the first day of the month in which the notice of intention to elect is made and the first day of July next following;

(ii) for each subsequent fiscal year, on each ton of aluminum and of alumina produced from the additional facilities, during the twelve (12) months immediately preceding the first day of July of such fiscal year.

(c) PRODUCTION CHARGE PAYABLE TO THE GOVERNMENT. If and only if the Contractor receives a termination payment or payments with respect to either or both groups of the additional aluminum smelting facilities pursuant to paragraph 2(a) or 2(b) of this ARTICLE VIII, the Contractor shall pay to the Government a production charge as hereinafter specified on each ton of aluminum produced from the additional aluminum smelting facilities after the receipt of such payment, or installment thereof, and sold or utilized. If and only if the Contractor receives a termination payment or payments with respect to the additional alumina facilities pursuant to paragraph 2(a) or 2(b) of this ARTICLE VIII, the Contractor shall pay to the Government a production charge as hereinafter specified on each ton of alumina produced from the additional alumina facilities after the receipt of such payment, or installment thereof, and sold or utilized. Said production charges shall be paid by the Contractor regardless of whether the Contractor itself shall or shall not, at any particular time or times, own or occupy said additional facilities, and regardless of whether, at any particular time or times, the operation of said additional facilities or the production of aluminum or alumina therefrom is effected by the Contractor or by some entity other than the Contractor, *provided,* that no production charges shall be payable with respect to any group of additional aluminum smelting facilities if or after the Government purchases that group of additional aluminum smelting facilities under the provisions of ARTICLE XV, and *provided further,* that no production charges shall be payable with respect to the additional alumina

facilities if or after the Government purchases the additional alumina facilities under the provisions of Article XV.

The production charge per ton of aluminum with respect to the additional aluminum smelting facilities, if and after a termination payment or installment thereof shall have been received by the Contractor with respect to either or both groups thereof, shall be seventy-five per cent (75%) of an amount determined by dividing (i) the number of tons obtained by subtracting from six hundred thousand (600,000) tons of aluminum the number of tons of aluminum actually produced from the additional aluminum smelting facilities pursuant to this contract from the date of their completion to the termination date, into (ii) the adjusted basis, as of the termination date and as computed in the determination of amortization for Federal income tax purposes pursuant to the provisions of Section 124A(e) of the Internal Revenue Code, of the group or groups of additional aluminum smelting facilities with respect to which the Contractor shall have received a termination payment or payments.

The production charge per ton of alumina with respect to the additional alumina facilities, if and after a termination payment or installment thereof shall have been received by the Contractor with respect thereto, shall be forty-five per cent (45%) of an amount determined by dividing (i) twice the number of tons obtained by subtracting from six hundred thousand (600,000) tons of aluminum the number of tons of aluminum actually produced from the additional aluminum smelting facilities pursuant to this contract from the date of completion of the additional aluminum smelting facilities to the termination date, into (ii) the adjusted basis, as of the termination date and as computed in the determination of amortization for Federal income tax purposes pursuant to the provisions of Section 124A(e) of the Internal Revenue Code, of such additional alumina facilities.

Any production charge payable by the Contractor with respect to the additional aluminum smelting facilities, as heretofore detailed in this paragraph 2(c) of ARTICLE VIII, shall be paid either (i) until the expiration of fifteen (15) years from the receipt of the termination payment, or the first installment thereof if paid in installments (and in such event shall also be

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paid on all aluminum produced from the additional aluminum smelting facilities but not yet sold or utilized at the expiration of such fifteen-year period), or (ii) until the total of such production charges paid equals the amount of the total termination payment made with respect to the additional aluminum smelting facilities, whichever first occurs. After the occurrence of either said event, the Contractor shall be under no further obligation to pay such production charge in respect of the additional aluminum smelting facilities.

Any production charge payable by the Contractor with respect to the additional alumina facilities, as heretofore detailed in this paragraph 2(c) of ARTICLE VIII, shall be paid either (i) until the expiration of fifteen (15) years from the receipt of the termination payment, or the first installment thereof if paid in installments (and in such event shall also be paid on all alumina produced from the additional alumina facilities but not yet sold or utilized at the expiration of such fifteen-year period), or (ii) until the total of such production charges paid equals the amount of the total termination payment made with respect to the additional alumina facilities, whichever first occurs. After the occurrence of either said event, the Contractor shall be under no further obligation to pay such production charge in respect of the additional alumina facilities.

If a termination payment is made in installments under the provisions of paragraph 2(b) of this ARTICLE VIII with respect to any group of facilities, any production charges thereafter due and payable with respect to such facilities may be used by the Government as an offset against any installment of a termination payment also due and payable to the Contractor as more fully detailed in paragraph 2(b) of this ARTICLE VIII, *provided,* that a production payment thus used as an offset by the Government shall not otherwise be payable by the Contractor.

(d) CERTIFICATION OF PRODUCTION AND PAYMENT OF PRODUCTION CHARGE. Within ninety (90) days after the end of each month following the date of the receipt of any termination payment or the first installment thereof and until the Contractor's obligation to pay all production charges has expired,

the Contractor shall furnish to the Government a certified statement of the number of tons, if any, of aluminum and alumina produced from the additional facilities and sold or utilized during such monthly period and shall, with such certificate, pay to the Government the amount of production charges due for such period (except as provided in paragraphs 2(b) and 2(c) of this ARTICLE VIII or as may have been paid in advance as provided for in paragraph 2(e) of this ARTICLE VIII).

(e) PAYMENT OF PRODUCTION CHARGE IN ADVANCE. At its option, the Contractor may pay all or any part of any production charge in advance.

(f) CHANGE IN PRODUCTION CHARGE. If the rate of such production charges, as calculated above, shall become an undue economic burden to the Contractor and the Contractor shall so demonstrate to the satisfaction of the Administrator, then the Administrator shall grant such reduction in said rate and such extension of the period during which such reduced rate shall be payable upon actual production, as he may deem appropriate.

(g) TERMINATION PAYMENT IS EXCLUSIVE REMEDY. In the event of termination of this contract by the Government as provided in paragraph 1 of this ARTICLE VIII, the sole right and remedy of the Contractor, either at law or equity, shall be to receive a termination payment or payments, under the circumstances and subject to the terms and conditions set forth in this ARTICLE VIII.

3. ELECTION TO CONTINUE AMORTIZATION IN LIEU OF TERMINATION PAYMENT.

Except as provided in paragraph 2(b) of this ARTICLE VIII, if the Contractor, after termination, does not elect to avail itself of the provisions of Section 124A(g) of the Internal Revenue Code, but continues to take the sixty-month amortization deduction authorized by Section 124A of said Code with respect to all of the additional facilities until the expiration of the sixty-month period, then the Government shall not be obligated to make any termination payment to the Contractor, *provided,* that the Contractor may, at its option, elect to avail itself of the provisions of Section 124A(g) of the Internal Revenue Code as to any one or more of the three units of additional facilities as detailed in ARTICLE II, at any time or from time to time after termination and prior to the expira-

tion of such sixty-month period, and upon so doing, will be entitled to termination payments, as hereinbefore provided in paragraph 2 of this ARTICLE VIII, with respect to the additional facilities as to which such election was made.

4. TERMINATION PAYMENT LIMITED TO 80% OF AMORTIZABLE COST.

Nothing in this contract is intended to limit or curtail the Contractor's statutory right to discontinue amortization deductions under Section 124A of the Internal Revenue Code at any time, *provided,* that the Contractor's exercise of such right shall not increase the amount of the termination payment or payments otherwise payable to the Contractor under this ARTICLE VIII had the Contractor not elected to exercise such right, nor extend the time within which the Contractor may elect to request or take any termination payment provided for in this ARTICLE VIII. Whether the Contractor is or is not taking, or has or has not taken, amortization deductions under said Section 124A with respect to any of the additional facilities or any part thereof, the termination payment or payments with respect thereto shall be computed as if the Contractor had been taking such amortization deductions. In any event, the limit of the Government's obligation to make any termination payment with respect to any group of facilities shall not exceed eighty per cent (80%) of the cost of such group of facilities as computed for Federal income tax purposes less an amount equal to one-sixtieth (1/60th) of eighty per cent (80%) of such cost for each month following the month in which such group of facilities was completed, up to and including the month preceding the month as of which the termination payment or the first installment thereof becomes due and payable.

5. PARTIAL EXERCISE OF THE CONTRACTOR'S RIGHTS.

Such rights as the Contractor may have under this contract (a) to receive termination payments under this ARTICLE VIII, including the resulting obligations detailed in ARTICLES VIII, IX and XV, and (b) to obtain Government guarantees of loans for the construction of additional facilities, as hereinafter detailed in ARTICLE X, may be exercised by the Contractor either with respect to all the additional facilities, or severally and from time to time, with respect to any one or more of the following subdivisions of such facilities: (a) the two additional potlines for the smelting of aluminum, with related power and auxiliary facilities, to be built at the Con-

tractor's existing Point Comfort, Texas, aluminum smelting plant, (b) the aluminum smelting plant, with related power and auxiliary facilities, to be built near Wenatchee in the State of Washington, and (c) the additional alumina facilities to be built in the State of Arkansas, each as more fully detailed in ARTICLE II.

ARTICLE IX.

The Contractor's Obligation to Sell While Under Obligation to Make Production Charge Payments.

1. ALUMINUM.

While the Contractor's obligation to the Government to make production charge payments, pursuant to ARTICLE VIII, continues with respect to the additional aluminum smelting facilities, the Contractor agrees, to the extent that it actually produces aluminum at the additional aluminum smelting facilities, to make such aluminum available for sale to the Government, in the manner and subject to the terms and conditions provided in paragraph 1 of ARTICLE III, and to non-integrated users in the manner and subject to the terms and conditions provided in paragraph 2 of ARTICLE III, in both instances at the prices provided for in paragraph 1 of ARTICLE XI, *provided,* that the Contractor's obligation to sell aluminum to the Government and to non-integrated users during any period pursuant to this ARTICLE IX shall not exceed a total of twenty-five per cent (25%) of the production from the additional facilities for such period.

2. ALUMINA.

While the Contractor's obligation to the Government to make production charge payments, pursuant to ARTICLE VIII, continues with respect to the additional alumina producing facilities, the Contractor agrees, to the extent that it actually produces alumina in such additional facilities, to make available for sale to others such quantity of alumina produced at such additional alumina facilities, which, together with the Contractor's own requirements from such facilities and a reasonable allowance for needed spare capacity, will not exceed the capacity of these additional facilities for producing alumina. The Contractor will make such alumina available at its current market price for the grade and quantity of alumina involved (including and subject to the terms and conditions applicable

thereto). If the Contractor should have more than one current market price in effect for the grade and quantity of alumina involved, the lowest of such market prices shall be deemed to be the Contractor's current market price for the purpose of this ARTICLE IX.

ARTICLE X.

Government Guarantee of Loans.

The Government, acting through the General Services Administration as an authorized guaranteeing agency under Executive Order No. 10161, dated September 9, 1950, and Executive Order No. 10200, dated January 3, 1951, agrees to guarantee any loans obtained by the Contractor to construct the additional facilities to the extent required by the lender concerned and as determined by the guaranteeing agency after consideration of the recommendations of the appropriate Federal Reserve Bank. If any such loan is guaranteed and remains unpaid, in whole or in part, at the time any termination payment or installment thereof described in ARTICLE VIII is due to the Contractor from the Government, the Government reserves the right, at its option, to require the Contractor to apply any or all of such termination payment or installment thereof to the payment of all or any part of the principal installments of said guaranteed loan in the regular order of maturity.

ARTICLE XI.

Sales Price of Aluminum.

1. ON ALUMINUM WHICH THE CONTRACTOR IS REQUIRED TO SELL.

The price at which the Contractor is required to sell aluminum pig and ingot to the Government and non-integrated users in accordance with paragraphs 1 and 2 of ARTICLE III and ARTICLES IV, VII and IX shall be the Contractor's published price (including and subject to the standard terms and conditions applicable thereto) in effect at the time of delivery for the grade, form, size and quantity of aluminum involved. If the Contractor should have more than one published price in effect for the grade, form, size and quantity involved, the lowest of such published prices shall be deemed the Contractor's published price for the purposes of this ARTICLE XI.

2. ON PURCHASES WHICH THE GOVERNMENT MAY BE REQUIRED TO MAKE.

The price at which the Government is required to buy the aluminum pig on tender by the Contractor, as detailed in paragraph 3 of ARTICLE III, shall be the Contractor's published price (including and subject to the standard terms and conditions applicable thereto) in effect at the time of delivery for the grade, form, size and quantity involved, *provided,* that if at the time of delivery the current published price (including and subject to the standard terms and conditions applicable thereto) for the grade, form, size and quantity involved of either Reynolds Metals Company or Kaiser Aluminum & Chemical Corporation is lower than the Contractor's published price, then, and during the period of such difference, the price at which the Government is required to buy aluminum pig tendered by the Contractor as aforesaid shall be the lowest of such published prices in effect at the time of delivery. The Contractor shall invoice the Government at its said published price in effect at the time of delivery and grant any credits required by the above formula in the Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

3. GOVERNMENT PRICE CONTROLS.

(a) THE CONTRACTOR'S RIGHT OF CANCELLATION. In the event that price controls are placed upon aluminum by the Government which result in the Contractor's inability to earn a reasonable profit from the operation of the additional facilities and, after reasonable efforts, the Contractor is unable to obtain relief from such price controls to the extent that such price controls cause such inability, then the Contractor shall have the right to terminate this contract. Such termination shall become effective thirty (30) days after receipt of written notice thereof delivered by the Contractor to the Administrator, and upon such termination the provisions of paragraphs 2, 3, 4 and 5 of ARTICLE VIII shall apply. For the purposes of this paragraph 3 of ARTICLE XI, (a) in determining the Contractor's profit, the amount of accelerated amortization in excess of normal depreciation shall not be included in computing the Contractor's cost of production, and (b) it is the understanding of the parties that the Contractor's profit existing at the effective date of this contract is a reasonable profit.

(b) CONTRACT PRICE PROVISIONS REINSTATED AT END OF PRICE CONTROLS. In the event that the price control authorities grant relief to the Contractor in accordance with paragraph 3(a) of this ARTICLE XI, with respect to the Contractor's prices on sales to the Government or to non-integrated users, or both, pursuant to this contract, then the prices authorized by such relief shall apply to such sales under this contract during the effective period of such relief, but, upon the termination of such relief, the price provisions otherwise specified in this contract shall again govern.

ARTICLE XII.

Force Majeure.

1. EFFECT OF DELAYS.

The time for performance by the Contractor of its obligations under the provisions of this contract relating to the construction of the additional facilities, to the production and delivery of aluminum from such additional facilities, and to the operation of such additional facilities, shall be extended at the option of the Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions or cessations occasioned by force majeure at any time subsequent to the effective date of this contract, (force majeure being herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of the Contractor, including but not by way of limitation, acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, and priority or allocation requirements or other acts of the Federal Government), *provided,* that the Contractor shall give to the Administrator, within thirty (30) days after the occurrence of each such force majeure, written notice thereof together with a statement setting forth the facts evidencing such force majeure, and *provided further,* that at the conclusion of the duration of each such force majeure the Contractor shall, within thirty (30) days thereafter, give to the Government written notice of the termination of such force majeure.

2. THE CONTRACTOR'S RIGHT OF ELECTION TO PROCEED BEFORE COMPLETION.

In the event that any occurrence of force majeure resulting from priority or allocation requirements or other acts of the Federal

Government prevents the date of completion of the additional aluminum reduction facilities from occurring by or before January 1, 1953, the Contractor may, at any time thereafter, by written notice delivered to the Administrator, elect to proceed with the performance of this contract as if such date of completion had occurred. In the event of such election, the provisions of this contract which are expressly dependent upon the occurrence of such date of completion, including, without limitation, ARTICLES III and VIII, shall become effective as if the date of completion of construction had occurred upon the date of receipt of such notice by the Administrator, *provided,* that the amount of aluminum which it shall be the duty of the Government to buy and the duty of the Contractor to sell to the Government and to non-integrated users hereunder in each subsequent six-month period specified in and under the conditions of ARTICLE III shall be limited to the actual capacity of the additional aluminum smelting facilities during such period, and, *provided further,* that the provisions of this ARTICLE XII shall not relieve the Contractor from its obligations to complete the construction and operation of the additional facilities, except during the period or periods when the Contractor is prevented from so doing by conditions of force majeure.

ARTICLE XIII.

Termination for Cause.

1. FAILURE OF THE GOVERNMENT TO GUARANTEE LOANS AFTER APPLICATION THEREFOR.

If the Contractor should apply for a Government guarantee of loans pursuant to ARTICLE X and despite due diligence does not obtain such guarantees on terms satisfactory to Contractor, within forty five (45) days after the date when the Contractor applies for such guaranteed loans or after the date of execution of this agreement, whichever date may be later, the Contractor may, at any time thereafter before such guaranteed loans are obtained, terminate this agreement on the terms provided in ARTICLE XIV. If such guaranteed loans are not obtained within ninety (90) days after the Contractor applies for such guaranteed loans, then the Government may also, at any time thereafter before such guaranteed loans are obtained (or the application therefor withdrawn), terminate this agreement on the terms provided in ARTICLE XIV.

2. FAILURE TO OBTAIN NECESSARY PRIORITIES AND ALLOCATIONS.

If the Contractor, despite due diligence, does not obtain all priorities and allocations necessary for the purchase and delivery of equipment, supplies, materials, and services of any nature required for the completion or placing into operation of the additional facilities, and the inability to obtain such priorities and allocations substantially interferes with the completion or placing into operation of any of the additional facilities for a consecutive period of 180 days, or such lesser period as may hereafter be mutually agreed upon, then the Contractor may terminate this agreement (a) as to either of the additional aluminum smelting facilities the completion of which has been so interfered with, (b) as to both the additional aluminum smelting facilities if the completion of both has been so interfered with or (c) as to all the additional facilities if the completion of the additional alumina facilities has been so interfered with.

ARTICLE XIV.

Consequences of Termination for Cause.

In the event this agreement is terminated in whole or in part pursuant to ARTICLE XIII, termination shall become effective thirty (30) days after receipt of notice delivered by the Contractor to the Administrator, or by the Administrator to the Contractor, as the case may be, and upon such termination the following provisions shall apply to the additional facilities with respect to which the agreement is terminated:

1. AS APPLIED TO THE CONSTRUCTION OF ADDITIONAL FACILITIES.

With respect to each contract or commitment theretofore made by the Contractor and relating to the additional facilities other than those at Point Comfort, Texas, with respect to which this agreement is terminated (including, without limitation, contracts and commitments for utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services), the Government shall reimburse the Contractor for all expenditures actually made thereunder up to the date of termination, and either, at the Government's option, (a) require the assignment by the Contractor to the Government of such contract or commitment and assume the Contractor's obligations thereunder, or (b) direct the Contractor to cancel or settle such contract or commitment

and reimburse the Contractor for its expenditures in effecting such cancellation and settlement. The Contractor shall thereupon transfer or deliver to the Government all real and personal property obtained by the Contractor as a result of such expenditures and not previously consumed.

2. AS APPLIED TO THE OBLIGATIONS TO BUY AND SELL ALUMINUM.

With respect to the Contractor's obligations to sell aluminum as detailed in ARTICLE I, in paragraphs 1, 2 and 4 of ARTICLE III and in ARTICLES IV, VII and IX, and with respect to the Government's obligation to buy aluminum as detailed in ARTICLE I and in paragraphs 3 and 4 of ARTICLE III, such obligations of the Contractor and the Government shall terminate wholly when and if the agreement is terminated by either party pursuant to ARTICLE XIII with respect to both the additional smelting facilities or with respect to all the additional facilities, and shall terminate to the extent of thirty five-one hundred twentieths (35/120) of the obligations to buy or sell remaining at the time of termination if the termination under ARTICLE XIII is with respect to the Contractor's additional aluminum smelting facilities at Point Comfort, Texas, and shall terminate to the extent of eighty five-one hundred twentieths (85/120) of said obligations if such termination is with respect to the Contractor's additional aluminum smelting facilities to be erected near Wenatchee in the State of Washington.

ARTICLE XV.

Government Purchase Option.

1. IDLENESS OF ADDITIONAL FACILITIES FOR ONE YEAR.

If (a) this agreement has been terminated pursuant to paragraph 1 of ARTICLE VIII or paragraph 3 of ARTICLE XI, and (b) the Contractor is obligated to make production payments to the Government, and (c) at the time notice of exercise of the option by the Government hereinafter referred to is given, the additional aluminum smelting facilities or the additional alumina facilities, as such facilities are defined in ARTICLE II, including all additions, renewals and improvements thereof and thereto, are and have been substantially idle for a continuous period of at least one (1) year immediately prior to the receipt of such notice (not including in the computation of such period any time during which conditions of force

majeure, as defined in ARTICLE XII, exist, or such period of relief as may be granted by the Administrator pursuant to paragraph 3 of ARTICLE VI) then the Government shall have the option to purchase from the Contractor the aforementioned additional aluminum smelting facilities and the additional alumina facilities, or either, if only that one had been idle for the period heretofore stated, from the Contractor at a price calculated as set forth in paragraph 4 of this ARTICLE XV, *provided,* that the option granted by this paragraph shall apply only to such of the Contractor's additional aluminum smelting facilities and additional alumina facilities as are capable of independent operation (which proviso is intended to exclude from the operation of this ARTICLE XV any additional aluminum smelting facilities added by the Contractor at its existing aluminum smelting plant at Point Comfort, Texas). The Government's option shall be exercised by delivering a written notice to the Contractor of its election to exercise such option, stating the date it shall become effective, which date shall not be less than ninety (90) days from the date of its receipt by the Contractor.

2. THE CONTRACTOR MAY PLACE THE ADDITIONAL FACILITIES BACK IN OPERATION.

If the Contractor, in good faith, before the effective date of the Government's election to purchase pursuant to the aforementioned option, places the additional aluminum smelting facilities or additional alumina facilities, or both, as the case may be, in substantial operation, then the Government's exercise of its option to purchase shall become without effect, but the Government shall thereafter have the option to purchase said facilities if, at a later date, all of the conditions set forth in paragraph 1 of this ARTICLE XV recur, subject to the same terms and conditions of paragraphs 1 and 2 of this ARTICLE XV.

3. DEFINITION OF IDLENESS.

For the purpose of paragraphs 1 and 2 of this ARTICLE XV, the additional aluminum smelting facilities shall be deemed to be substantially idle unless at least one (1) potline is in operation, and the additional alumina producing facilities shall be deemed to be substantially idle unless they are producing at a rate of at least two hundred (200) tons a day; and substantial operation of the additional aluminum smelting facilities shall consist of the operation of at least one (1) potline, and substantial operation of the addi-

tional alumina producing facilities shall consist of alumina production at the rate of at least two hundred (200) tons a day.

4. OPTION PURCHASE PRICE.

The purchase price for the additional aluminum smelting facilities or the additional alumina facilities, or both, as the case may be, shall be such amount as shall fully reimburse the Contractor for the entire cost of the facilities to be purchased after deducting from such cost the profit or adding thereto the loss, as the case may be, resulting from the operation and maintenance of said facilities from the date of their initial operation to the effective date of the exercise of the option.

In computing the purchase price, the following adjustments shall be made and the principles herein stated shall be followed:

(a) TREATMENT OF TERMINATION PAYMENTS AND PRODUCTION CHARGES. There shall be deducted from the cost of the additional aluminum smelting facilities or the additional alumina facilities, or both, as the case may be, the amount of termination payments paid by the Government to the Contractor on account of said facilities purchased, less production charges paid by the Contractor on account of said facilities.

(b) DETERMINATION OF PROFIT OR LOSS. In determining the Contractor's profit or loss: (i) Amortization and depreciation of said facilities to be purchased which has actually been taken shall be subtracted from the cost of operations. (ii) The cost of operations shall include all costs of starting up, shutting down and of maintaining said facilities purchased in standby condition, including all standby charges as well as all costs of cancelling commitments as a result of shutdowns. (iii) The costs of operation shall include a charge for alumina (in the operation of the additional aluminum smelting facilities) and any other materials furnished by the Contractor for operation of the additional facilities at fair market prices but not less than the Contractor's cost of furnishing the same (including applicable depreciation and depletion at normal rates) plus a reasonable profit; *provided,* that if such alumina or other materials are purchased by the Contractor from a wholly owned subsidiary, the charge to be included shall be at fair market value, but not less than such subsidiary's cost of

furnishing the same (including depreciation and depletion at normal rates) plus a reasonable profit, with the further qualification that such computation of cost and profit shall be not more than such subsidiary is currently charging others for the same material. (iv) The cost of operation shall also include interest paid by the Contractor on borrowed money attributable to the construction or operation of the additional facilities. (v) There shall be deducted from the profit of each year, or added to the loss of each year of operating said facilities, a pro rata share of the general administrative and selling expenses, and said expenses shall be prorated in the proportion which the net sales and the value of intracompany and intercompany transfers of products produced by the additional facilities bear to the total net sales and the value of intracompany and intercompany transfers of the Contractor and its wholly-owned subsidiaries for said year, *provided,* that in the computation of the foregoing net sales and the value of intracompany and intercompany transfers there shall be no duplication, that any intracompany or intercompany sales or transfers shall be deemed to have been made at the Contractor's current published price, and that in calculating the foregoing proportion in connection with selling expenses, sales to the Government under this contract shall be excluded.

(c) PROFIT OR LOSS ON OPERATION OF OTHER FACILITIES NOT TO BE CONSIDERED. The Contractor's profit or loss in furnishing raw materials for the operation of the additional facilities and in fabrication of any aluminum produced from the additional aluminum smelting facilities shall be excluded from all computations of the purchase price of said facilities, it being understood that neither the profit nor loss resulting from the operation of any of the Contractor's facilities, other than those being purchased by the Government pursuant to this option, is to be taken into account in determining the purchase price.

(d) DEDUCTION OF TAX BENEFIT. There shall be deducted from such purchase price any tax benefit which may be realized by the Contractor as a result of the deduction by the Contractor of any net operating loss attributable to the additional facilities (computed with the deduction of depreciation or amortization pursuant to the provisions of Section 124A of

the Internal Revenue Code as actually allowed for the purposes of computing the Contractor's Federal income and excess profits tax liabilities) from net income from other operations of the Contractor.

(e) FURTHER ADJUSTMENTS AUTHORIZED. Notwithstanding anything in this ARTICLE XV to the contrary, it is the intent of said Article and of the parties that the Contractor shall be fully reimbursed for all of its expenditures as hereinabove defined for the construction, acquisition, maintenance, operation and shutdown of the additional facilities purchased, without profit or loss to the Contractor (excluding, however, profit or loss from the production of raw materials and the fabrication of aluminum in facilities other than the additional facilities), as if the Contractor had never owned said facilities. If payment of said purchase price does not so reimburse the Contractor because of taxes payable, then the purchase price shall be adjusted so that the Contractor is so reimbursed without profit or loss as if the Contractor had never owned or operated the additional facilities.

5. DELIVERY OF TITLE PAPERS AND PURCHASE PRICE.

As promptly as possible after the receipt of notice of the exercise of the option, the parties shall compute and agree upon the purchase price. Upon the effective date of the option, the Contractor shall execute and deliver to the Government a deed to all of said property. The Contractor shall be obligated to convey only such title to the property as it or its subsidiaries hold at the time it receives the notice from the Government exercising the option, except that the property shall be conveyed free and clear of all liens and encumbrances for indebtedness incurred by the Contractor. At the same time the Contractor shall assign and transfer to the Government such contracts relating to the operation of the plant as it has the right to assign and transfer, and upon such assignment and transfer the Government shall assume all obligations for further performance thereunder. The purchase price shall become due and payable upon delivery of the deed by the Contractor to the Government.

ARTICLE XVI.

Administrator.

As used herein, the term "Administrator" means the Administrator of General Services and his successors in function.

ARTICLE XVII.

Performance by Subsidiaries.

All or any part of the obligations of the Contractor under this agreement may be performed by and in the name of any wholly-owned domestic subsidiary corporation or corporations of the Contractor, and operations outside of the United States, its territories and possessions by domestic or foreign subsidiaries, *provided,* that the Contractor guarantees such performance, and in such event at the Contractor's request, any payment with respect to such portion of the contract so performed by the subsidiary shall be made to such subsidiary. It is further understood that the Contractor may make its sales of aluminum through a sales subsidiary corporation or corporations and that in such event, for the purposes of this agreement, the published prices of such subsidiary sales corporation or corporations or of the Contractor, whichever shall be lower, shall be deemed the published prices of the Contractor, and sales by such sales subsidiary corporation or corporations shall be considered the sales of the Contractor.

ARTICLE XVIII.

Delivery of Ingot.

It is understood that the Contractor intends to install equipment at the additional aluminum smelting facilities for the conversion of a portion of the capacity of such facilities from pig to ingot. The Contractor shall be obligated to deliver aluminum ingot to the Government or to non-integrated users during any period to the extent of orders for ingot received under the terms of this agreement, but not to exceed the quantity of ingot which the Contractor is reasonably able to produce with the equipment installed at the additional aluminum smelting facilities during such period.

ARTICLE XIX.

Point of Delivery.

The Contractor shall ship aluminum ordered by the Government to such destination as is specified in each such order given pursuant to the terms of this contract, *provided,* that the delivery point shall be in accordance with the Contractor's standard terms and conditions applicable at the time of delivery. A delivery point other than in accordance with the Contractor's terms and conditions applicable to the price in effect at time of delivery may be specified upon the mutual consent of the parties. The Contractor shall be responsible for each shipment of aluminum covered by this contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risks of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from the Contractor to the Government.

ARTICLE XX.

Inspection.

1. INSPECTION PRIOR TO FINAL ACCEPTANCE.

All aluminum delivered to the Government pursuant to this contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places, including the period of manufacture, and in any event prior to final acceptance.

2. DEFECTIVE ALUMINUM.

In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the requirements of this contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Administrator or his duly authorized representative, by and at the expense of the Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the rejection or requirement of replacement is disclosed. If the Contractor fails to promptly remove such aluminum when requested by the Administrator or his duly authorized representa-

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tive, and to proceed promptly with the replacement thereof, the Government at its option may (a) by contract or otherwise replace such aluminum and charge to the Contractor the cost occasioned the Government thereby, or (b) terminate the right of the Contractor to make delivery of the amount of aluminum so rejected for default, or (c) accept the aluminum so rejected at an appropriate reduction of the contract price.

3. MANNER, PLACE AND TIME OF INSPECTION.

If any inspection or test is made by the Government on the premises of the Contractor, the Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of the Contractor, it shall be at the expense of the Government, *provided,* that in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such manner as not to unduly delay the operations of the Contractor. The Government reserves the right to charge to the Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by the Contractor. Final acceptance or rejection of the aluminum shall be made as promptly as practicable after delivery; but failure to inspect and accept or reject aluminum shall neither relieve the Contractor from responsibility for such aluminum as is not in accordance with the contract requirements nor impose liability on the Government therefor.

4. CONSEQUENCES OF FINAL ACCEPTANCE.

The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve the Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to final acceptance. Final acceptance shall be conclusive except as regards latent defects, fraud, or such gross mistakes as amount to fraud.

5. THE CONTRACTOR'S INSPECTION SYSTEM.

The Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by the Contractor shall

be kept complete and available to the Government during the performance of this contract and for such period as the Government may specify.

ARTICLE XXI.

Buy American Act.

1. APPLICABILITY.

The Contractor agrees that there will be delivered under this contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this ARTICLE XXI as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act (41 U. S. Code 10a-c), the foregoing provision shall not apply (a) with respect to supplies excepted by the Administrator from the application of that Act, (b) with respect to supplies for use outside the United States, (c) with respect to the supplies to be delivered under this contract, which are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (d) with respect to such supplies, from which the supplies to be delivered under this contract are manufactured, as are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, *provided,* that this exception (d) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

2. STATUS OF BAUXITE.

The Administrator hereby determines for the purpose of this contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XXII.

Prison Labor Not to Be Employed.

In connection with the performance of work under this contract, the Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XXIII.

The Eight-Hour Law of 1912.

This contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912 as amended (40 U. S. Code 324-326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912 as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the Contractor or any subcontractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by the Contractor or any subcontractor engaged in the performance of this contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon the Contractor for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government.

ARTICLE XXIV.

The Walsh-Healey Act.

If this contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed ten thousand dollars ($10,000) and is otherwise subject to the Walsh-Healey Public Contracts Act as amended (41 U.S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XXV.

Discrimination in Employment.

In connection with the performance of work under this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and further agrees to insert the foregoing provisions in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XXVI.

Members of Congress.

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this contract, or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE XXVII.

Contingent Fees.

The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide

established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXVIII.

Performance During Disputes.

In the event of any dispute arising under this contract, the Contractor shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of this contract.

ARTICLE XXIX.

Controlling Statutes.

This contract is entered into pursuant to the Defense Production Act of 1950 (Public Law 774, 81st Congress); the Strategic and Critical Materials Stock Piling Act (Public Law 520, 79th Congress); and the Federal Property and Administrative Services Act of 1949 (Public Law 152, 81st Congress), as amended.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals this 7th day of June, 1951, but effective as of December 19, 1950. Executed in quadruplicate.

UNITED STATES OF AMERICA

By JESS LARSON [L.S.]
Administrator of General Services

ALUMINUM COMPANY OF AMERICA

By I. W. WILSON
President

ATTEST:

J. R. D. HUSTON
Secretary

EXHIBIT A

UNITED STATES

DEPARTMENT OF THE INTERIOR

OFFICE OF THE SECRETARY

Washington 25, D. C.

December 11, 1950

My dear Mr. Larson:

Pursuant to the provisions of the Defense Production Act of 1950 (Public Law 774, 81st Congress) and the President's Executive Order No. 10161 of September 9, 1950 (15 F. R. 6105), to enable you to enter into suitable contracts for the purchase of or commitments to purchase aluminum, and to enable you or any other authorized agency of the Government to make provision for loans (including participations in, or guarantees of, loans) to domestic producers, all under the provisions of said Act and Order, and all within the limits of the following certifications, I do hereby certify that the following are necessary in the interests of national defense and to carry out the express purpose and policies of said Act and Order:

1. The construction of new facilities for production of aluminum within as short a period as possible to increase the production capacity in the United States by 450,000 tons per annum. As the military and essential civilian programs are made more firm, this goal may have to be enlarged.

2. The negotiation and entering into of suitable contracts to purchase or commitments to purchase all or so much of said additional production by the Government as may be necessary to procure the construction and installation of facilities for its production.

3. This certification relates to the construction of and production from all or any of the following facilities:

a. Facilities having a capacity of 120,000 tons per annum to be constructed by the Aluminum Company of America.

b. Facilities having a capacity of 100,000 tons per annum to be constructed by Reynolds Metals Company.

c. Facilities having a capacity of 100,000 tons per annum to be constructed by Kaiser Aluminum and Chemical Corporation.

d. Facilities having a capacity of 54,000 tons per annum to be constructed by the Apex Smelting Company.

e. Facilities having a capacity of 72,000 tons per annum to be constructed by the Harvey Machine Company.

Without in any manner desiring to dictate to you the terms and provisions of these aluminum contracts, I think it desirable to call to your attention that with respect to Apex and Harvey serious consideration should be given to the desirability of assuring that terms for these companies are based on an adequate showing that their costs and prices will not diverge so materially from those of established producers as to threaten the existing cost and resulting low price policies of the industry.

The location and type of power to be utilized by most of the above plants cannot yet be specified, but it is understood that the selection will be made on the basis of the lowest cost of producing aluminum consistent with the earliest date production can begin. In issuing this certification, I am reserving for certification later the plant locations and types of power under consideration for each aluminum producer. I want to review the proposed locations and types of electric power and source of energy, whether steam, gas engine or hydro, for each aluminum plant. It will be necessary to verify the feasibility of proposed schedules to produce and install the electrical equipment, and to determine what action may be necessary to rearrange production schedules where manufacturers' assembly lines are already committed. This is essential to avoid conflict with the large power requirements that must also be scheduled for other urgent programs, particularly atomic energy and certain chemicals and metals.

Sincerely yours,

OSCAR L. CHAPMAN
Secretary of the Interior

Hon. JESS LARSON, Administrator
General Services Administration
Washington 25, D. C.

EXHIBIT B

UNITED STATES

DEPARTMENT OF THE INTERIOR

OFFICE OF THE SECRETARY

Washington 25, D. C.

Jan. 4, 1951

My dear Mr. Larson:

This will supplement my letter of December 11, 1950 certifying under section 303 of Executive Order 10161 to the necessity for additional aluminum production in the interests of national defense. At this time I wish to complete my certification in the case of the proposed facilities for production of 1,100 net tons per day of alumina to be constructed by the Aluminum Ore Company a subsidiary of the Aluminum Company of America.

Company	—	Aluminum Ore Company (ALCOA subdiary)
Capacity	—	1,100 net tons per day of alumina, 401,500 net tons per year.
Type of Power	—	Construction of a 22,500 kw steam turbo-generator power plant using natural gas as fuel and purchase of 1,200 kw of firm power from the Arkansas Power and Light Company.
Location	—	Alumina plant and related facilities to be located at Arkansas at a site to be selected.

I extend my certificate dated December 11, 1950, with respect to facilities having a capacity of 401,500 net tons per annum of alumina to be constructed by Aluminum Ore Company (ALCOA subsidiary) to include the location and power supplies set forth above.

This certificate does not imply an obligation on the part of the United States to schedule manufacturers' production of steam power generating equipment in a preferred position if interim electric power supply can be obtained from other sources.

Since the exact location of alumina plant, contract for purchase power, and a gas supply for fuel for proposed Aluminum Ore Company's plant has not been fully developed by the company, it is my understanding that the company will keep me fully advised and furnish me with copies of plans when they have been developed including copies of fuel, and power supply contracts as to specific location and details of power and fuel source and price.

Sincerely yours,

OSCAR L. CHAPMAN
Secretary of the Interior

HON. JESS LARSON, Administrator
General Services Administration
Washington 25, D.C.

EXHIBIT C

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
Washington 25, D. C.

January 23, 1951

My dear Mr. Larson:

Reference is made to my letter dated December 18, 1950, to Mr. I. W. Wilson, Senior Vice President, Aluminum Company of America, supplementing my earlier certification of December 11, 1950, relating to Alcoa's participation in the aluminum expansion program. This letter should, of course, have been addressed to you, and sending it to Mr. Wilson was an inadvertence. I therefore repeat herewith, in the same terms as I addressed Mr. Wilson, the following supplementary certification:

This will supplement my letter of December 11, 1950 certifying under Section 303 of Executive Order 10161 to the necessity for additional aluminum production in the interests of national defense. I reserved for later certification the location and type of power to be utilized by the plants referred to in that certification. At this time, I wish to complete my certification as to a portion of the proposed facilities for production of 120,000 short tons of aluminum per annum to be constructed by the Aluminum Company of America.

Company —Aluminum Company of America

Capacity —Approximately 35,000 short tons of aluminum per year

Type of Power—Construction of new power plant using natural gas as fuel, gas engine type

Location —Reduction plant and related facilities to be located at Port Lavaca, Texas as an addition to the Company's existing Point Comfort works

I extend my certification dated December 11, 1950, with respect to facilities having a capacity of 120,000 short tons per annum to

be constructed by Aluminum Company of America to include the location and power supplies set forth above, and related to 35,000 tons of the proposed additional capacity.

Sincerely yours,

OSCAR L. CHAPMAN
Secretary of the Interior

HON. JESS LARSON, Administrator
General Services Administration
Washington 25, D. C.

EXHIBIT D

DEFENSE PRODUCTION ADMINISTRATION

WASHINGTON 25

May 17, 1951

Hon. Jess Larson, Administrator
General Services Administration
Washington 25, D. C.

Dear Mr. Larson:

Pursuant to the provisions of the Defense Production Act of 1950 (Public Law 774, 81st Congress), Executive Order 10161 dated September 9, 1950, (15 F.R. 61), and Executive Order 10200 dated January 3, 1951, (16 F.R. 61), I certify that of the facilities for the production of aluminum to be constructed by the Aluminum Company of America in the total amount of 120,000 short tons per annum, pursuant to the certifications heretofore made by the Secretary of the Interior to the General Services Administrator (dated December 11, 1950 and January 23, 1951), approximately 85,000 short tons of annual production capacity should consist of a reduction plant and related facilities to be located in the vicinity of Wenatchee, Washington, to utilize 120,000 kilowatts of firm power from expansion of the Rock Island hydroelectric project to be supplied by Chelen County PUD, Washington, and 60,000 kilowatts of interruptible power to be supplied by the Bonneville Power Administration.

Sincerely yours,

T. F. FARRELL
Deputy Administrator for
Resources Expansion

AMENDMENT NO. 1 TO CONTRACT NO. GS–OOP (D)–12007 BETWEEN THE UNITED STATES OF AMERICA AND ALUMINUM COMPANY OF AMERICA

Contract No. GS–OOP(D)–12007, executed June 7, 1951, as of December 19, 1950, between the United States of America and Aluminum Company of America, is hereby amended as follows:

1. Paragraph 1 of Article VIII of said contract is hereby deleted and the following substituted in lieu thereof:

"1. EFFECT OF TERMINATION

"The termination of this contract by the Contractor, as provided in paragraph 3 of Article XI, shall not have the effect of cancelling or terminating any order placed by the Government for aluminum pursuant to paragraph 1 of Article III or any tenders made by the Contractor to the Government pursuant to paragraph 3 of Article III before the effective date of termination, to the extent that such aluminum has been produced prior to such effective date of termination."

2. The phrase "by the Government as provided in paragraph 1 of this Article VIII," in paragraph 2 (g) of Article VIII of said contract is hereby amended to read "by the Contractor as provided in paragraph 3 of Article XI,".

3. The second sentence of paragraph 3 of Article XI is hereby amended by deleting the phrase "of paragraphs 2, 3, 4 and 5".

4. All references in said contract to the right of the Government to terminate said contract pursuant to Article VIII and to the termination of said contract by the Government pursuant to Article VIII shall be considered to be deleted.

5. The first sentence of paragraph 1 of Article XV of said contract is hereby amended by deleting the phrase "one (1) year" in clause (c) of said sentence and inserting in place thereof the phrase "ninety (90) days".

IN WITNESS WHEREOF the parties hereto have executed this Amendment in quadruplicate this 27th day of February 1953.

UNITED STATES OF AMERICA,
By RUSSELL FORBES,
Acting Administrator of General Services.
ALUMINUM COMPANY OF AMERICA,
By LEON E. HICKMAN,
Vice President.

Attest:
[SEAL]
ALFRED M. HUNT,
Secretary.

AMENDMENT NO. 2 TO CONTRACT NO. GS–OOP(D)–12007 BETWEEN UNITED STATES OF AMERICA AND ALUMINUM COMPANY OF AMERICA

Contract No. GS–OOP(D)–12007, executed June 7, 1951, as of December 19, 1950, between the UNITED STATES OF AMERICA and ALUMINUM COMPANY OF AMERICA, as amended, is hereby further amended as follows:

1. Paragraph 2 (a) of Article III is amended to read as follows:

"2. SALES TO NONINTEGRATED USERS

"(a) AMOUNT AND NOTICE. For each consecutive six-month period referred to in paragraph 1 of this Article III, the Contractor shall offer for sale to nonintegrated users on the terms and conditions provided for in paragraph 1 of Article XI, aluminum pig, ingot or billets in the aggregate quantity, if any, by which the amount ordered by the Government for the said six-month period, in accordance with paragraph 1 of this Article III, is less than two-thirds of the reasonably estimated additional production for such period. As used in this agreement, the term "nonintegrated user" shall mean any manufacturer, fabricator, finisher or producer of aluminum in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing aluminum hereunder for his own manufacturing, fabricating, finishing or producing operations. Said offer to sell aluminum pig, ingot or billets to nonintegrated users shall be made for a period of at least thirty (30) days and shall be made by publishing a notice in the metal trades journal known as "The American Metal Market" or by such other method as the Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such nonintegrated users may submit orders for the purchase thereof during a period of thirty (30) days from the date of first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least thirty (30) days prior to the beginning of the first six-month

period and at least sixty (60) days prior to the beginning of each subsequent six-month period. The Contractor may discontinue publication of the notice in the event the Contractor has accepted, prior to the expiration of the two weeks' publication period, sufficient orders from nonintegrated users to equal the quantity offered for sale as hereinabove provided."

2. The next to the last sentence of Article IV is amended to read as follows:

"Contractor shall offer in pig, ingot or billet form for sale to non-integrated users, on the terms and conditions provided in paragraph 1 of Article XI, the quantity, if any, by which the amount ordered by the Government for said period is less than two-thirds of the estimated production from the additional facilities for such period, subject to the terms and conditions of paragraph 2 of Article III."

3. Paragraph 2 (f) of Article VIII is amended to read as follows:

"(f) CHANGE IN PRODUCTION CHARGE. If the rate of such production charges, as calculated above, shall become an undue economic burden to the Contractor and the Contractor shall so demonstrate to the satisfaction of the Administrator, then the Administrator shall grant such reduction in said rate and such extension of the period during which such reduced rate shall be payable upon actual production and sale or utilization, as he may deem appropriate."

4. Paragraph 1 of Article XI is amended to read as follows:

"1. ON ALUMINUM WHICH THE CONTRACTOR IS REQUIRED TO SELL

"The price at which the Contractor is required to sell aluminum pig, ingot or billets to the Government and nonintegrated users in accordance with paragraphs 1 and 2 of Article III and Articles IV, VII, and IX shall be the Contractor's published price (including and subject to the standard terms and conditions applicable thereto) in effect at the time of delivery for the grade, form, size and quantity of aluminum involved. If the Contractor should have more than one published price in effect for the grade, form, size and quantity involved, the lowest of such published prices shall be deemed the Contractor's published price for the purposes of this Article XI."

5. Paragraph 1 of Article XII is amended to read as follows:

"1. EFFECT OF DELAYS

"The time for performance by the Contractor of its obligations under the provisions of this contract relating to the construction of the additional facilities, to the production and delivery of aluminum from such additional facilities, and to the operation of such additional facilities, shall be extended at the option of the Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions or cessations occasioned by force majeure (force majeure being herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of the Contractor, including but not by way of limitation, acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, and priority or allocation requirements or other acts of the Federal Government), provided, that the Contractor shall give to the Administrator, within thirty (30) days after the occurrence of each such force majeure, written notice thereof together with a statement setting forth the facts evidencing such force majeure, and provided further, that at the conclusion of the duration of each such force majeure the Contractor shall, within thirty (30) days thereafter, give to the Government written notice of the termination of such force majeure."

6. Paragraph 5 of Article XV is amended to read as follows:

"5. DELIVERY OF TITLE PAPERS AND PURCHASE PRICE

"As promptly as possible after the receipt of notice of the exercise of the option, the parties shall compute and agree upon the purchase price. Upon the effective date of the option, the Contractor shall execute and deliver to the Government a deed to all of said property. The Contractor shall be obligated to convey only such title to the property as it or its subsidiaries hold at the time it receives the notice from the Government exercising the option, except that the property shall be conveyed free and clear of all liens and encumbrances for indebtedness incurred by the Contractor. At the same time the Contractor shall assign and transfer to the Government such contracts relating to the operation of the plant as it has the right to assign and transfer and upon such assignment and transfer the Government shall assume all obligations for further performance thereunder. The purchase price shall become due and payable upon delivery of the deed by

the Contractor to the Government. If the parties have not agreed upon the purchase price, then the Government shall pay to the Contractor the amount the Government shall have computed as the purchase price, without prejudice to the right of the Contractor to negotiate further with the Government in an effort to arrive at a purchase price satisfactory to the Contractor, and, failing such agreement, without prejudice to whatever rights the Contractor may have to proceed in the Court of Claims to recover such amount which, when added to the amount which has heretofore been paid, shall in the judgment of the Court of Claims represent the appropriate purchase price computed under the provisions of this Article XV. In any such action in the Court of Claims the determination of an appropriate purchase price computed under the provisions of this Article XV shall be de novo, and any prior calculation or calculations by either party of any item or items entering into the computation of the purchase price theretofore paid to the Contractor, shall be without prejudice to either party in said action."

7. Article XIX is amended to read as follows:

"POINT OF DELIVERY

"The Contractor shall ship aluminum ordered by the Government to such destination within the continental United States as is specified in each such order given pursuant to the terms of this contract, provided, that the delivery point shall be in accordance with the Contractor's standard terms and conditions applicable at the time of delivery. A delivery point other than in accordance with the Contractor's terms and conditions applicable to the price in effect at time of delivery may be specified upon the mutual consent of the parties. The Contractor shall be responsible for each shipment of aluminum covered by this contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risks of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from the Contractor to the Government."

8. Paragraph 3 of Article XX is amended to read as follows:

"3. MANNER, PLACE AND TIME OF INSPECTION

"If any inspection or test is made by the Government on the premises of the Contractor, the Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of the Contractor, it shall be at the expense of the Government, provided, that in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such manner as not to unduly delay the operations of the Contractor. The Government reserves the right to charge to the Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by the Contractor. Final acceptance or rejection of the aluminum shall be made as promptly as practicable after delivery, but in any event within thirty (30) days thereafter; but failure to inspect and accept or reject aluminum shall neither relieve the Contractor from responsibility for such aluminum as is not in accordance with the contract requirements nor impose liability on the Government therefor."

9. Paragraph 5 of Article XX is amended, to read as follows:

"THE CONTRACTOR'S INSPECTION SYSTEM

"The Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by the Contractor shall be kept complete and available to the Government during the performance of this contract and for three (3) years thereafter."

This amendment is entered into pursuant to the Defense Production Act of 1950 (Public Law 774, 81st Congress), as amended; the Strategic and Critical Materials Stock Piling Act (Public Law 520, 79th Congress); and the Federal Property and Administrative Services Act of 1949 (Public Law 152, 81st Congress), as amended.

In WITNESS WHEREOF, the parties hereto have executed this Amendment in quadruplicate this 1st day of July 1953.

UNITED STATES OF AMERICA,
By A. J. WALSH,
Commissioner, Emergency Procurement Service,
General Services Administration.
ALUMINUM COMPANY OF AMERICA,
By F. L. MAGEE,
Vice President.

Attest:
[SEAL]
ALFRED M. HUNT,
Secretary.

CONTRACT BETWEEN UNITED STATES OF AMERICA AND ALUMINUM COMPANY OF AMERICA

Executed October 19, 1951

CONTRACT

THIS CONTRACT, entered into the 19th day of October, 1951, by the UNITED STATES OF AMERICA, herein called the Government, acting through the Administrator of General Services, herein called the Administrator, and ALUMINUM COMPANY OF AMERICA, a corporation existing under the laws of the Commonwealth of Pennsylvania, herein called the Contractor,

WITNESSETH: ARTICLE I—SALE AND PURCHASE OF ALUMINUM

Subject to the terms and conditions hereof, Contractor agrees to produce and sell, and the Government guarantees the disposition of, four hundred twenty-five thousand (425,000) short tons of 2,000 pounds each, of primary aluminum pig, said primary aluminum to be of a minimum grade of ninety-nine per cent (99%) aluminum, which primary aluminum is herein called the "additional production". The Contractor will produce said aluminum from additional facilities, which it agrees herein to construct, such facilities being herein sometimes called the "additional facilities". Such production and sale shall commence upon the date of completion of construction of the additional facilities (as such completion is hereinafter defined) and shall continue thereafter at a rate of approximately eighty-five thousand (85,000) short tons per year, except that for the first six months of operation after the date of completion of the additional facilities, production may be at such lesser rate as may be necessarily inherent in newly constructed facilities. Such production and sale shall continue until four hundred twenty-five thousand (425,000) short tons of aluminum have been so produced from the additional facilities after the date of completion of construction and shall be completed within a period of six years after said date of completion, but in no event later than June 30, 1959, unless extended as hereinafter provided in Article XII. The date of completion of construction of the additional facilities shall be the first day upon which ninety per cent (90 %) of the electrolytic cells, which are to be constructed as a part of the additional facilities, are tapped. Upon the occurrence of such event, the Contractor shall forthwith issue a certificate to the Government certifying such date to be the date of said completion.

ARTICLE II—CONSTRUCTION OF ADDITIONAL FACILITIES

The Contractor shall proceed without delay to acquire and construct the additional facilities to be used for the production of said aluminum. Such additional facilities shall include: (a) additional aluminum smelting facilities, consisting of an aluminum smelting plant with an annual capacity of approximately eighty-five thousand (85,000) short tons, with such power and related facilities as the Contractor may consider necessary, to be located near Sandow in Milam County in the State of Texas, the electric power required for such smelting facilities to be generated from steam made from lignite mined from nearby deposits; (b) additional alumina producing facilities, consisting of an addition of approximately one hundred seventy thousand (170,000) short tons to the annual capacity of the Contractor's aluminum producing facilities at Mobile in the State of Alabama; and (c) additional bauxite mining facilities, consisting of an expansion of the Contractor's bauxite mining facilities in the Dominican Republic or in Suriname,

or both, sufficient to supply the additional bauxite required by the Contractor to meet its commitments hereunder. As used in this contract, the terms "additional facilities", "additional aluminum smelting facilities", "additional alumina facilities" and "additional bauxite mining facilities" shall have the meaning set forth in this Article II.

ARTICLE III—DISPOSITION OF PRODUCTION FROM ADDITIONAL ALUMINUM SMELTING FACILITIES

Commencing with the date of completion of the additional facilities, and continuing until the completion or termination of this contract, and subject to such priorities in delivery as may be required pursuant to law, the additional production from the additional facilities shall be disposed of as follows:

1. GOVERNMENT REQUIREMENTS

(a) CALL ON ADDITIONAL ALUMINUM PRODUCTION. The Government may require the Contractor to sell to it, at the price provided in paragraph 1 of Article XI, all or any of the additional aluminum production for each consecutive six-month period during the continuance of this agreement, the first such period commencing with the date of completion of the additional facilities.

(b) INITIAL NOTICE AND SALES. At least ninety (90) days before the date on which the Contractor estimates the additional facilities will be completed, it shall advise the Government of the estimated date of completion and of the amount of the additional aluminum production it estimates it will produce from the additional facilities during the first six months after completion. It is recognized that, after the facilities are completed within the meaning of this agreement, additional time thereafter will be required to bring the aluminum smelting pots to full capacity, and that production for the first six months after completion of a plant may be less than the production in subsequent six-month periods. Within thirty (30) days after receipt of such notice, the Government shall notify the Contractor in writing of the amount of aluminum it elects to purchase during the said first six-month period. The notice shall be a firm order for the purchase of the quantity stated, and deliveries to the Government shall commence as soon as practical after the date of completion of the additional facilities. Notwithstanding such estimate, the Contractor shall not be obligated to deliver to the Government aluminum in excess of the amount produced from the additional facilities during said period.

(c) SUBSEQUENT NOTICES AND SALES. Thereafter, at least ninety (90) days prior to the beginning of each subsequent six-month period during the continuance of this agreement, the Government shall give notice notice in writing to the Contractor of the amount of the additional aluminum production it elects to purchase for such period. Each such notice, when given, shall be a firm order for the purchase of the fiuantity stated. If no notice is given within the time provided in the preceding sentence, the Contractor shall be under no obligation to deliver aluminum to the Government pursuant to this paragraph 1 (c) of Article III during the following six-month period.

(d) COMPLIANCE WITH STOCKPILE SPECIFICATIONS. The Government shall in each such notice specify the amount of aluminum it desires to have comply with the national stockpile material purchase specification P–62, latest revision as of the date of this contract, and thereafter the Contractor shall deliver such quantities in accordance with such specification. The Government may not order more than fourteen thousand (14,000) short tons of aluminum which are required to meet the stockpile specification in any six-month period, or proportionate amounts in lesser periods.

(e) EQUITABLE ALLOCATION AMONG DOMESTIC PRODUCERS. It is the intent of the parties that the Administrator will exercise the Government's right to purchase aluminum under this paragraph 1 of Article III so as to purchase approximately equal percentages of the additional production produced by the Contractor, by Kaiser Aluminum & Chemical Corporation and by Reynolds Metals Company, respectively, under this program of expanded aluminum production; and the Administrator agrees that insofar as practicable, the Government will not purchase from the Contractor under this paragraph 1 of Article III quantities which are inequitable to the Contractor in the light of the quantities being purchased from such other companies, *provided*, that the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this paragraph 1 (e) of Article III.

(f) MONTHLY DELIVERIES. Deliveries under all orders pursuant to this paragraph of Article III shall be made in approximately equal monthly quantities, unless a different delivery schedule is specified in the Government's notice, *provided*, that the Government shall not specify for delivery in any one month a quantity greater than one month's productive capacity of the additional facilities.

2. SALES TO NON-INTEGRATED USERS

(a) AMOUNT AND NOTICE. For each consecutive six-month period referred to in paragraph 1 of this Article III, the Contractor shall offer for sale to nonintegrated users on the terms and conditions provided for in paragraph 1 of Article XI, on a non-preferential basis in accordance with the Contractor's customary sales practices, aluminum pig, ingot or billets in the aggregate quantity, if any, by which the amount ordered by the Government for the said six-month period, in accordance with paragraph 1 of this Article III, is less than two-thirds of the reasonably estimated additional production for such period. As used in this agreement, the term "non-integrated user" shall mean any manufacturer, fabricator, finisher or producer of aluminum in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing aluminum hereunder for his own manufacturing, fabricating, finishing or producing operations. Said offer to sell aluminum pig, ingot or billets to non-integrated users shall be made for a period of at least thirty (30) days and shall be made by publishing a notice in the metal trades journal known as "The American Metal Market" or by such other method as the Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during a period of thirty (30) days from the date of first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least thirty (30) days prior to the beginning of the first six-month period and at least sixty (60) days prior to the beginning of each subsequent six-month period. The Contractor may discontinue publication of the notice in the event the Contractor has accepted, prior to the expiration of the two weeks' publication period, sufficient orders from non-integrated users to equal the quantity offered for sale as hereinabove provided.

(b) TERMS OF SALE. All orders shall be subject to the Contractor's acceptance, to its approval of the credit of the purchaser and to its standard terms and conditions of sale then in effect. Subject to the provisions of the foregoing sentence, the Contractor shall accept orders from nonintegrated users sufficient to equal the quantity thus offered for sale as provided in paragraph 2 (a) of this Article III, but thereafter the Contractor shall have no obligation to accept any further orders from non-integrated users for the period. Nothing herein shall prohibit the Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other nonintegrated users for such period. If, pursuant to the terms of paragraph 2 (a) of this Article III, the amount of aluminum which the Contractor is obligated to offer for sale to such nonintegrated users is zero, then the Contractor need not publish the notice or make the offer to nonintegrated users referred to above. Nothing in this paragraph 2 of Article III is intended to affect or prejudice the Contractor's privilege first to sell or offer for sale to industry aluminum produced from its other facilities.

(c) ENFORCEMENT BY THE GOVERNMENT. It is understood and agreed that (i) the Government may enforce the provisions of this paragraph 2 of Article III in its own name by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to nonintegrated users affected, but not including consequential damages, and (ii) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(d) CONTRACT COMMITMENTS. It is recognized that the Contractor has made and intends in the future to make contracts with customers who are non-integrated users for the delivery of aluminum pig, ingots and billets which may be produced from the additional facilities. The maximum quantity of aluminum which the Contractor may be obligated to deliver pursuant to such commitments for any applicable six-month period may be deducted from the quantity which the Contractor is obligated to make available to other non-integrated users for such six-month period under this paragraph 2 of Article III, *provided*, that the Contractor may not so deduct any quantities to be delivered pursuant to any contract which

requires the Contractor to deliver in excess of five hundred thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Administrator. The Administrator shall be deemed to have approved any such contract unless he disapproves the same and so notifies the Contractor in writing within fifteen (15) days after written notice has been received by him of the terms of such contract. Any quantity so deducted by the Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such six-month period, shall be added to the quantity which the Contractor is obligated to offer to nonintegrated users during the subsequent six-month period.

(e) REVIEW OF GOVERNMENT ORDERS. If, after receiving the notice from the Government of the amount of aluminum it elects to purchase, as provided in paragraph 1 of this Article III, the Contractor finds that the quantity ordered by the Government for any six-month period is such that it may be impossible for the Contractor to fulfill its prior commitments to such other customers as are non-integrated users, the Contractor may advise the Administrator of such fact. The Administrator shall thereupon review the quantity ordered by the Government and, if under all of the circumstances the Administrator considers it advisable, he may reduce the quantity ordered by the Government.

3. SALES TO THE GOVERNMENT OF UNSOLD OR UNUTILIZED ADDITIONAL PRODUCTION

Any quantity of additional production not disposed of in accordance with paragraphs 1 and 2 of this Article III, and not otherwise sold or utilized by the Contractor, may be tendered to the Government in the form of pig only during each consecutive twelve-month period (the first such period commencing with the date of completion of the additional aluminum-producing facilities). Such tender or tenders shall be made during the first ten (10) days of any calendar month during such period and during the first ten (10) days following the expiration of such period, and all such tenders shall be considered to be applicable to such period. The Government shall purchase the amount so tendered at the price specified in paragraph 2 of Article XI. The Government shall not be required to buy under this paragraph 3 of Article III, for any twelve-month period specified in said paragraph, more than the actual output of the additional aluminum-producing facilities during such period, less the quantity of such additional production disposed of under paragraphs 1 and 2 of this Article III or otherwise sold or utilized by Contractor, *provided*, that in such computation the Contractor's right of substitution under paragraph 2 of Article VI is recognized.

4. AGGREGATE OBLIGATION TO SELL

In no event, except as provided in Article VII and Article IX, shall the Government be obligated to order or purchase, or the Contractor be obligated to accept orders from either the Government or non-integrated users for an amount of aluminum which, added to the prior production sold or utilized by the Contractor of aluminum from the additional facilities after the date of completion of such facilities, exceeds four hundred twenty-five thousand (425,000) short tons.

ARTICLE IV—SALE OF PRODUCTION BEFORE COMPLETION OF ADDITIONAL FACILITIES

The Government may require the sale to it of all or any part of the aluminum produced from the additional facilities from the date of the beginning of commercial production and prior to the date of completion of the facilities. Such sale shall be at the price provided in paragraph 1 of Article XI. When the Contractor is reasonably able to do so, and between ninety (90) days and sixty (60) days before the date the Contractor estimates commercial production will begin, it shall advise the Government of the time when it estimates that aluminum will first be produced commercially at the additional facilities and of the quantity which it estimates will be produced from such time until the date of completion of the facilities. Between sixty (60) days and thirty (30) days prior to the estimated date when aluminum will first be produced commercially, the Government shall notify the Contractor in writing of the amount of such metal it desires to purchase, which notice shall be a firm order by the Government to purchase the quantity of aluminum specified therein at the price and upon the terms and conditions set forth in paragraph 1 of Article XI for the sale of aluminum to the Government after completion of the additional facilities, *provided*, that during such period the Contractor shall not be required to deliver any aluminum

of stockpile specifications beyond its reasonable ability to do so during said period, or any aluminum in an amount exceeding the production of the additional facilities. The Contractor shall offer in pig, ingot or billet form for sale to nonintegrated users, on the terms and conditions provided in paragraph 1 of Article XI, the quantity, if any, by which the amount ordered by the Government for said period is less than two-thirds of the estimated production from the additional facilities for such period, subject to the terms and conditions of paragraph 2 of Article III. Any, quantity of aluminum produced or sold during this period shall not reduce the quantities otherwise specified in this contract, and specifically shall not be included as a portion of the four hundred twenty-five thousand (425,000) tons specified in Article I.

Article V—Payment for Aluminum Delivered to Government

The Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

Article VI—Relationship of Additional to Existing Facilities

1. GOVERNMENT COMMITMENTS LIMITED TO PRODUCTION FROM ADDITIONAL FACILITIES

It is the intention of this contract that the Government, by agreeing to purchase aluminum from the additional facilities as herein provided, guarantees the disposition of the entire output of the additional facilities to the extent of the four hundred twenty-five thousand (425,000) ton quantity specified in Article I, subject to its right of termination as provided in Article XIII and the Contractor's rights of termination as provided in paragraph 3 of Article XI and in Article XIII hereof. In this connection, it is recognized that the Contractor now has other aluminum smelting facilities in operation and in course of construction and in the future may acquire further aluminum smelting facilities other than those to be constructed under this contract. It is understood that, except as to orders from the Government expressly placed pursuant to this contract for aluminum to be produced from the additional facilities, the Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such other facilities, before disposing of or utilizing aluminum from the additional facilities, and that, in accordance with paragraph 3 of Article III, the Government will purchase from the Contractor all of the production from the additional facilities not otherwise disposed of or utilized by the Contractor. The Government does not, by this contract, guarantee or agree to purchase production from other facilities.

2. DELIVERIES OF SUBSTITUTED ALUMINUM

Without affecting the rights and duties of the parties as set forth in paragraph 1 of this Article VI, deliveries to the Government and to nonintegrated users pursuant to Articles III, IV, VII and IX of this contract may, at the Contractor's option, be made by substituting aluminum produced from other facilities for aluminum actually produced from the additional facilities. In such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

3. FULFILLMENT OF CONTRACTUAL OBLIGATIONS FROM OTHER FACILITIES

In the event that it becomes an economic burden for the Contractor to continue to operate some or all of the additional facilities, as well as its existing facilities, the Contractor may petition the Administrator, setting forth all of the facts and asking for the privilege of closing down all or any portion of the additional facilities that it considers uneconomic and of delivering from other facilities the aluminum to be delivered to the Government or the nonintegrated users hereunder. Upon receipt of such petition, the Administrator shall give careful and due consideration to such request and grant such relief, if any, as he considers equitable to the Contractor, on such terms and conditions as he may determine, including, but not by way of limitation, a provision (a) that the Contractor continue to make aluminum available to nonintegrated users in the quantities and under the terms and conditions set forth in paragraph 2 of Article III, and (b) if the Administrator deems it appropriate, that the Contractor shall not be subject to the

provisions for purchase by the Government of all or part of the additional facilities under Article XV while and so long as the Contractor operates (or closes down) the additional facility or facilities to the extent and during the period specified by the Administrator in his grant of relief.

4. THE CONTRACTOR'S RIGHT TO UTILIZE THE OUTPUT OF ITS OTHER FACILITIES

Except as provided in paragraphs 2 and 3 of this Article VI, nothing in this contract is intended to control the sale or use by the Contractor of aluminum produced from facilities other than the additional facilities provided for hereunder or to direct the manner or extent of such sale or use.

ARTICLE VII.—SALE OF ALUMINUM TO NONINTEGRATED USERS FOR FIFTEEN YEARS

As an inducement to the Government to enter into this contract, and as part of the consideration therefor, the Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in Article I, or until any loan guaranteed by the Government pursuant to Article X is fully repaid, whichever shall be the longer, the Contractor will make available each year for sale to nonintegrated users, on an nonpreferential basis in accordance with the Contractor's customary sales practices, under credit conditions as to each purchaser satisfactory to the Contractor, at the price stated in paragraph 1 of Article XI, a quantity of aluminum equal to twenty-five percent (25%) of the annual capacity of the additional aluminum smelting facilities, *provided*, that the obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of the Contractor's production year, make firm purchase commitments with the Contractor for specified quantities for such production year. In the event that the Contractor for any year receives orders in excess of such twenty-five percent (25%), nothing herein shall prohibit the Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this Article VII. Nothing in this Article VII shall require the Contractor to operate the additional facilities after the full period of performance specified in Article I, it being understood that the Contractor shall be obligated under this Article VII only to the extent that it actually operates said facilities. It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to nonintegrated users affected, but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VIII.—TERMINATION

1. EFFECT OF TERMINATION

The termination of this contract by the Contractor, as provided in paragraph 3 of Article XI, shall not have the effect of cancelling or terminating any order placed by the Government for aluminum pursuant to paragraph 1 of Article III or any tenders made by the Contractor to the Government pursuant to paragraph 3 of Article III before the effective date of termination, to the extent that such aluminum has been produced prior to such effective date of termination. The Contractor's obligations to nonintegrated users under paragraph 2 of Article III, Article IV and Article VII are automatically terminated as of the effective date of termination of the Government's contract to purchase aluminum hereunder.

2. CANCELLATION PAYMENT TO THE CONTRACTOR

If the Contractor, at any time after such termination and before the costs of all the additional facilities to be constructed hereunder have been completely amortized or depreciated for Federal income tax purposes, notifies the Administrator that it intends to elect, with respect to any or all of said facilities the cost of which has not been completely so amortized or depreciated, to avail itself of the provisions of Section 124A (g) of the Internal Revenue Code, as amended by Section

216 of the Revenue Act of 1950, and to receive a cancellation payment as defined in Section 124A (g) (1) (A) with respect to such group or groups of facilities:

(a) TERMINATION PAYMENT CERTIFIED UNDER SECTION 124A (g) OF THE INTERNAL REVENUE CODE. The Contractor shall give written notice to the Administrator of its intention so to elect and thereupon there shall become due and payable from the Government to the Contractor a termination payment equal to the adjusted basis (as computed in the determination of amortization for Federal income tax purposes, pursuant to the provisions of Section 124A (e) of the Internal Revenue Code), of the additional facilities, or any one or more of the three groups thereof as detailed in Article II, as of the beginning of the month in which such notice of intention to elect is given by the Contractor, *provided*, that no termination payment shall be made purusant to this paragraph 2 (a) of Article VIII unless such payment is certified as provided in Section 124A (g) of the Internal Revenue Code. The election by the Contractor, referred to in this paragraph 2 (a) of Article VIII, as to any one or more of said groups of facilities need not be made simultaneously but may be made at any time, or from time to time, as to any group until the cost of such group has been amortized to the extent of the adjusted basis thereof for amortization purposes as defined by Section 124A (e) of the Internal Revenue Code. It is the intent of the Administrator and the Contractor that any termination payment which may be made pursuant to the provisions of this paragraph 2 (a) of Article VIII will be compensation to the Contractor for the unamortized cost of an emergency facility (also identified throughout this contract as an additional facility) because a contract with the United States involving the use of the facility has been terminated by its terms or by cancellation as provided in Section 124A (g) of the Internal Revenue Code, as amended by Section 216 of the Revenue Act of 1950, and the Administrator agrees to recommend to the certifying authority specified in Section 124A (g) of the Internal Revenue Code that such authority so certify.

(b) ALTERNATIVE TERMINATION PAYMENT. If the Contractor intends to elect to avail itself of the provisions of Section 124A (g) of the Internal Revenue Code in respect to any group or groups of such emergency facilities (also identified throughout this contract as additional facilities), and has given written notice of such intention to the Administrator, but the certifying authority designated pursuant to the provisions of such Section does not, in respect to any one or more of such groups of emergency facilities certify by the end of the Contractor's fiscal year in which such notice of intention to elect is made that the payment is a payment as compensation for the unamortized cost of an emergency facility made because a contract with the United States involving the use of such facility has been terminated by its terms or by cancellation, or if Section 124A (g) of the Internal Revenue Code shall have been repealed or modified before any termination payment authorized under paragraph 2 (a) of this Article VIII is requested or received, then there shall become due and payable from the Government to the Contractor in respect to such group or groups of emergency facilities the cost of which shall not have been completely amortized or depreciated, upon the Contractor's written request therefor, a termination payment which shall be equal to the adjusted basis of such emergency facilities, as of the beginning of the month in which such notice of intention to elect is given by the Contractor, as computed in the determination of amortization for Federal income tax purposes, pursuant to the provisions of Section 124A (e) of the Internal Revenue Code, and which shall become due and payable in installments as follows: For the Contractor's fiscal year in which it gives notice of its intention to elect to receive a termination payment with respect to any such group or groups of facilities, the Government shall pay to the Contractor an amount equal to the amortization deduction allowable with respect to such group or groups of facilities for Federal income tax purposes for the period commencing with the month in which the notice of intention to elect is given and ending with the close of such fiscal year, and said payment shall become due and payable as of the month in which such notice of intention to elect was given; and as of July 1 of each fiscal year of the Contractor thereafter, the Government shall pay to the Contractor an amount equal to the amortization deduction allowable with respect to such group or groups of facilities for Federal income tax purposes for such fiscal year reduced by an amount

equal to the aggregate of the applicable production charges computed under paragraph 2 (c) of this Article VIII on the following basis:

(i) for the first fiscal year subsequent to the year in which notice of intention to elect to receive a cancellation payment is given, on each ton of aluminum produced from the additional aluminum smelting facilities, between the first day of the month in which the notice of intention to elect is made and the first day of July next following;

(ii) for each subsequent fiscal year, on each ton of aluminum produced from said additional facilities, during the twelve (12) months immediately preceding the first day of July of such fiscal year.

(c) PRODUCTION CHARGE PAYABLE TO THE GOVERNMENT. If and only if the Contractor receives a termination payment or payments with respect to the additional facilities pursuant to paragraph 2 (a) or 2 (b) of this Article VIII, the Contractor shall pay to the Government a production charge as hereinafter specified on each ton of aluminum produced from the additional aluminum smelting facilities after the receipt of such payment, or installment thereof, and sold or utilized. Said production charge shall be paid by the Contractor regardless of whether the Contractor itself shall or shall not, at any particular time or times, own or occupy said additional aluminum smelting facilities, and regardless of whether, at any particular time or times, the operation of said additional aluminum smelting facilities or the production of aluminum therefrom is effected by the Contractor or by some entity other than the Contractor, *provided*, that no production charge shall be payable if or after the Government purchases said additional aluminum smelting facilities under the provisions of Article XV.

The production charge per ton of aluminum with respect to the additional facilities, if and after a termination payment or installment thereof shall have been received by the Contractor with respect thereto shall be seventy-five per cent (75%) of an amount determined by dividing (i) the number of tons obtained by subtracting from four hundred twenty-five thousand (425,000) tons of aluminum the number of tons of aluminum actually produced from the additional aluminum smelting facilities pursuant to this contract from the date of their completion to the termination date, into (ii) the adjusted basis, as of the termination date and as computed in the determination of amortization for Federal income tax purposes pursuant to the provisions of Section 124A (e) of the Internal Revenue Code, of the said additional facilities with respect to which the Contractor shall have received a termination payment or payments.

Any production charge payable by the Contractor with respect to the additional facilities, as heretofore detailed in this paragraph 2 (c) of Article VIII, shall be paid either (i) until the expiration of fifteen (15) years from the receipt of the termination payment, or the first installment thereof if paid in installments (and in such event shall also be paid on all aluminum produced from the additional aluminum smelting facilities but not yet sold or utilized at the expiration of such fifteen-year period), or (ii) until the total of such production charges paid equals the amount of the total termination payment made with respect to the additional facilities, whichever first occurs. After the occurrence of either said event, the Contractor shall be under no further obligation to pay such production charge in respect of the additional facilities.

If a termination payment is made in installments under the provisions of paragraph 2 (b) of this Article VIII with respect to any group of facilities, any production charges thereafter due and payable with respect to such facilities may be used by the Government as an offset against any installment of a termination payment also due and payable to the Contractor as more fully detailed in paragraph 2 (b) of this Article VIII, *provided*, that a production payment thus used as an offset by the Government shall not otherwise be payable by the Contractor.

(d) CERTIFICATION OF PRODUCTION AND PAYMENT OF PRODUCTION CHARGE. Within ninety (90) days after the end of each month following the date of the receipt of any termination payment or the first installment thereof and until the Contractor's obligation to pay all production charges has expired, the Contractor shall furnish to the Government a certified statement of the number of tons, if any, of aluminum produced from the additional facilities and sold or utilized during such monthly period and shall, with such certificate, pay to the Government the amount of production charges due for such period (except as provided in paragraphs 2 (b) and 2 (c) of this

Article VIII or as may have been paid in advance as provided for in paragraph 2 (e) of this Article VIII).

(e) PAYMENT OF PRODUCTION CHARGE IN ADVANCE. At its option, the Contractor may pay all or any part of any production charge in advance.

(f) CHANGE IN PRODUCTION CHARGE. If the rate of such production charges, as calculated above, shall become an undue economic burden to the Contractor and the Contractor shall so demonstrate to the satisfaction of the Administrator, then the Administrator shall grant such reduction in said rate and such extension of the period during which such reduced rate shall be payable upon actual production and sale or utilization, as he may deem appropriate.

(g) TERMINATION PAYMENT IS EXCLUSIVE REMEDY. In the event of termination of this contract by the Contractor as provided in paragraph 3 of Article XI, the sole right and remedy of the Contractor, either at law or equity, shall be to receive a termination payment or payments, under the circumstances and subject to the terms and conditions set forth in this Article VIII.

3. ELECTION TO CONTINUE AMORTIZATION IN LIEU OF TERMINATION PAYMENT

Except as provided in paragraph 2 (b) of this Article VIII, if the Contractor, after termination, does not elect to avail itself of the provisions of Section 124A (g) of the Internal Revenue Code, but continues to take the sixty-month amortization deduction authorized by Section 124A of said Code with respect to all of the additional facilities until the expiration of the sixty-month period, then the Government shall not be obligated to make any termination payment to the Contractor, *provided*, that the Contractor may, at its option, elect to avail itself of the provisions of Section 124A (g) of the Internal Revenue Code as to any one or more of the three groups of additional facilities as detailed in Article II, at any time or from time to time after termination and prior to the expiration of such sixty-month period, and upon so doing, will be entitled to termination payments, as hereinbefore provided in paragraph 2 of this Article VIII, with respect to the additional facilities as to which such election was made.

4. TERMINATION PAYMENT LIMITED TO CERTIFIED PERCENTAGE OF AMORTIZABLE COST

Nothing in this contract is intended to limit or curtail the Contractor's statutory right to discontinue amortization deductions under Section 124A of the Internal Revenue Code at any time, *provided*, that the Contractor's exercise of such right shall not increase the amount of the termination payment or payments otherwise payable to the Contractor under this Article VIII had the Contractor not elected to exercise such right, nor extent the time within which the Contractor may elect to request or take any termination payment provided for in this Article VIII. Whether the Contractor is or is not taking, or has or has not taken, amortization deductions under said Section 124A with respect to any of the additional facilities or any part thereof, the termination payment or payments with respect thereto shall be computed as if the Contractor had been taking such amortization deductions. In any event, the limit of the Government's obligation to make any termination payment with respect to any group of facilities shall not exceed eighty percent (80%) of the cost of such group of facilities as computed for Federal income tax purposes less an amount equal to one-sixtieth (1/60th) of eighty per cent (80%) of such cost for each month following the month in which such group of facilities was completed, up to and including the month preceding the month as of which the termination payment or the first installment thereof becomes due and payable; *provided, however*, that there shall be substituted for the figure eighty percent (80%) wherever such figure appears, such percentage of the cost of the additional facilities as may be certified pursuant to Section 124A of the Internal Revenue Code, as amended.

5. PARTIAL EXERCISE OF THE CONTRACTOR'S RIGHTS

Such rights as the Contractor may have under this contract (a) to receive termination payments under this Article VIII, including the resulting obligations detailed in Articles VIII, IX and XV, and (b) to obtain Government guarantees of loans for the construction of additional facilities, as hereinafter detailed in Article X, may be exercised by the Contractor either with respect to all the additional facilities, or severally and from time to time, with respect to any one

or more of the three groups of such facilities, each as more fully detailed in Article II hereof.

6. TERMINATION OF EARLIER CONTRACT WHILE ALUMINUM IS BEING IMPORTED

In consideration of the Contractor's acceptance of this contract, the Government agrees that it shall have no right to, and will not, cancel the contract between the United States and the Contractor dated June 7, 1951, effective as of December 19, 1950, for the production and sale of six hundred thousand (600,000) tons of aluminum, at any time when there is then in effect a contract or contracts between the Government and any suppliers of aluminum for importation into the United States from any foreign country of aluminum pig or ingot, providing for deliveries aggregating more than ten thousand (10,000) tons per year, except a contract or contracts entered into pursuant to the Economic Cooperation Act of 1948, as amended, for relief or rehabilitation.

ARTICLE IX—THE CONTRACTOR'S OBLIGATION TO SELL WHILE UNDER OBLIGATION TO MAKE PRODUCTION CHARGE PAYMENTS

While the Contractor's obligation to the Government to make production charge payments, pursuant to Article VIII, continues, the Contractor agrees, to the extent that it actually produces aluminum at the additional aluminum smelting facilities, to make such aluminum available for sale to the Government, in the manner and subject to the terms and conditions provided in paragraph 1 of Article III, and to non-integrated users in the manner and subject to the terms and conditions provided in paragraph 2 of Article III, in both instances at the prices provided for in paragraph 1 of Article XI, *provided*, that the Contractor's obligation to sell aluminim to the Government and to non-integrated users during any period pursuant to this Article IX shall not exceed a total of twenty-five per cent (25%) of the production from the additional facilities for such period.

ARTICLE X—GOVERNMENT GUARANTEE [OF LOANS]

The Government, acting through the General Services Administration as an authorized guaranteeing agency under Executive Order No. 10161, dated September 9, 1950, Executive Order No. 10200, dated January 3, 1951, and Executive Order No. 10281, dated August 28, 1951, agrees to guarantee any loans obtained by the Contractor to construct the additional facilities to the extent required by the lender concerned and as determined by the guaranteeing agency after consideration of the recommendations of the appropriate Federal Reserve Bank; *provided*, that the foregoing shall apply only to a guarantee of loans on which a guarantee is sought prior to the date of completion of construction of the additional facilities, as such completion is defined in the next to the last sentence of Article I of this contract. If any such loan is guaranteed and remains unpaid, in whole or in part, at the time any termination payment or installment thereof described in Article VIII is due to the Contractor from the Government, the Government reserves the right, at its option, to require the Contractor to apply any or all of such termination payment or installment thereof to the payment of all or any part of the principal installments of said guaranteed loan in the regular order of maturity.

ARTICLE XI—SALES PRICE OF ALUMINUM

1. ON ALUMINUM WHICH THE CONTRACTOR IS REQUIRED TO SELL

The price at which the Contractor is required to sell aluminum pig, ingot or billets to the Government and non-integrated users in accordance with paragraphs 1 and 2 of Article III and Articles IV, VII, and IX shall be the Contractor's published price (including and subject to the standard terms and conditions applicable thereto) in effect at the time of delivery for the grade, form, size and quantity of aluminum involved. If the Contractor should have more than one published price in effect for the grade, form, size and quantity involved, the lowest of such published prices shall be deemed the Contractor's published price for the purposes of this Article XI.

2. ON PURCHASES WHICH THE GOVERNMENT MAY BE REQUIRED TO MAKE

The price at which the Government is required to buy aluminum pig on tender by the Contractor, as detailed in paragraph 3 of Article III, shall be the Contractor's published price (including and subject to the standard terms and con-

ditions applicable thereto) in effect at the time of delivery for the grade, form, size and quantity involved, *provided*, that if at the time of delivery the current published price (including and subject to the standard terms and conditions applicable thereto) for the grade, form, size and quantity involved of either Reynolds Metals Company or Kaiser Aluminum & Chemical Corporation is lower than the Contractor's published price, then, and during the period of such difference, the price at which the Government is required to buy aluminum pig tendered by the Contractor as aforesaid shall be the lowest of such published prices in effect at the time of delivery. The Contractor shall invoice the Government at its said published price in effect at the time of delivery and grant any credits required by the above formula in the Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

3. GOVERNMENT PRICE CONTROLS

(a) THE CONTRACTOR'S RIGHT OF CANCELLATION. In the event that price controls are placed upon aluminum by the Government which result in the Contractor's inability to earn a reasonable profit from the operation of the additional facilities and, after reasonable efforts, the Contractor is unable to obtain relief from such price controls to the extent that such price controls cause such inability, then the Contractor shall have the right to terminate this contract. Such termination shall become effective thirty (30) days after receipt of written notice thereof delivered by the Contractor to the Administrator, and upon such termination the provisions of paragraphs 1, 2, 3, 4 and 5 of Article VIII shall apply. For the purposes of this paragraph 3 of Article XI, (a) in determining the Contractor's profit, the amount of accelerated amortization in excess of normal depreciation shall not be included in computing the Contractor's cost of production, and (b) it is the understanding of the parties that the Contractor's profit existing at the date of this contract (exclusive of profit or loss from the operation of its reactivated aluminum smelting facilities at Badin and Massena) is a reasonable profit.

(b) CONTRACT PRICE PROVISIONS REINSTATED AT END OF PRICE CONTROLS. In the event that the price control authorities grant relief to the Contractor in accordance with paragraph 3 (a) of this Article XI, with respect to the Contractor's prices on sales to the Government or to non-integrated users, or both, pursuant to this contract, then the prices authorized by such relief shall apply to such sales under this contract during the effective period of such relief, but, upon the termination of such relief, the price provisions otherwise specified in this contract shall again govern.

ARTICLE XII—FORCE MAJEURE

1. EFFECT OF DELAYS

The time for performance by the Contractor of its obligations under the provisions of this contract relating to the construction of the additional facilities, to the production and delivery of aluminum from such additional facilities, and to the operation of such additional facilities, shall be extended at the option of the Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions of cessations occasioned by force majeure, (force majeure being herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of the Contractor, including but not by way of limitation, acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, and failure to obtain adequate priority or allocation requirements or other acts of the Federal Government), *provided*, that the Contractor shall give to the Administrator, within thirty (30) days after the occurrence of each such force majeure, written notice thereof together with a statement setting forth the facts evidencing such force majeure, and, *provided further*, that at the conclusion of the duration of each such force majeure the Contractor shall, within thirty (30) days thereafter, give to the Government written notice of the termination of such force majeure.

2. THE CONTRACTOR'S RIGHT OF ELECTION TO PROCEED BEFORE COMPLETION

In the event that any occurrence of force majeure resulting from failure to obtain adequate priority or allocation requirements or other acts of the Federal Government prevents the date of completion of the additional aluminum reduction facilities from occurring by or before January 1, 1954, the Contractor may, at any time thereafter, by written notice delivered to the Administrator, elect to proceed with the performance of this contract as if such date of completion had

occurred. In the event of such election, the provisions of this contract which are expressly dependent upon the occurrence of such date of completion, including, without limitation, Article III, shall become effective as if the date of completion of construction had occurred upon the date of receipt of such notice by the Administrator, *provided*, that the amount of aluminum which it shall be the duty of the Government to buy and the duty of the Contractor to sell to the Government and to non-integrated users hereunder in each subsequent six-month period specified in and under the conditions of Article III shall be limited to the actual capacity of the additional aluminum smelting facilities during such period, and, *provided further*, that the provisions of this Article XII shall not relieve the Contractor from its obligations to complete the construction and operation of the additional facilities, except during the period or periods when the Contractor is prevented from so doing by conditions of force majeure.

Article XIII.—Termination for Cause

If the Contractor should apply for a Government guarantee of loans pursuant to Article X and despite due diligence does not obtain such guarantees on terms satisfactory to Contractor, within forty-five (45) days after the date when the Contractor applies for such guaranteed loans or after the date of execution of this agreement, whichever date may be later, the Contractor may, at any time thereafter before such guaranteed loans are obtained, terminate this agreement on the terms provided in Article XIV. If such guaranteed loans are not obtained within ninety (90) days after the Contractor applies for such guaranteed loans, then the Government may also, at any time thereafter before such guaranteed loans are obtained (or the application therefor withdrawn), terminate this agreement on the terms provided in Article XIV.

Article XIV—Consequences of Termination for Cause

In the event this agreement is terminated pursuant to Article XIII, termination shall become effective thirty (30) days after receipt of notice delivered by the Contractor to the Administrator, or by the Administrator to the Contractor, as the case may be, and upon such termination the following provisions shall apply:

1. As applied to the construction of additional aluminum smelting facilities

With respect to each contract or commitment theretofore made by the Contractor and relating to the additional aluminum smelting facilities (including, without limitation, contracts and commitments for utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services), the Government shall reimburse the Contractor for all expenditures actually made thereunder up to the date of termination, and either, at the Government's option, (a) require the assignment by, the Contractor to the Government of such contract or commitment and assume the Contractor's obligations thereunder, or (b) direct the Contractor to cancel or settle such contract or commitment and reimburse the Contractor for its expenditures in effecting such cancellation and settlement. The Contractor shall thereupon transfer or deliver to the Government all real and personal property obtained by the Contractor as a result of such expenditures and not previously consumed. The additional smelting facilities referred to in this Article XIV are the additional smelting facilities defined in Article II, but exclude the additional alumina producing and bauxite mining facilities referred to in said Article. The Contractor shall not receive any compensation, reimbursement, payment or damages, or have any right or remedy against the Government whatsoever as to the said alumina or bauxite facilities by reason of termination by either party pursuant to Article XIII.

2. As applied to the obligations to buy and sell aluminum

With respect to the Contractor's obligations to sell aluminum as detailed in Article I, in paragraphs 1, 2 and 4 of Article III and in Articles IV, VII and IX, and with respect to the Government's obligation to buy aluminum as detailed in Article I and in paragraphs 3 and 4 of Article III, such obligations of the Contractor and the Government shall terminate wholly when and if the agreement is terminated by either party pursuant to Article XIII.

ARTICLE XV.—GOVERNMENT PURCHASE OPTION

1. IDLENESS OF ADDITIONAL FACILITIES FOR ONE YEAR

If (a) this agreement has been terminated pursuant to paragraph 3 of Article XI, and (b) the Contractor is obligated to make production payments to the Government, and (c) at the time notice of exercise of the option by the Government hereinafter referred to is given, the additional aluminum smelting facilities, as such facilities are defined in Article II, including all additions, renewals and improvements thereof and thereto, are and have been substantially idle for a continuous period of at least one (1) year immediately prior to the receipt of such notice (not including in the computation of such period any time during which conditions of force majeure, as defined in Article XII, exist, or such period of relief as may be granted by the Administrator pursuant to paragraph 3 of Article VI) then the Government shall have the option to purchase from the Contractor the aforementioned additional aluminum smelting facilities (but not the alumina producing and bauxite mining facilities) defined in Article II hereof, at a price calculated as set forth in paragraph 4 of this Article XV. The Government's option shall be exercised by delivering a written notice to the Contractor of its election to exercise such option, stating the date it shall become effective, which date shall not be less than ninety (90) days from the date of its receipt by the Contractor.

2. THE CONTRACTOR MAY PLACE THE ADDITIONAL FACILITIES BACK IN OPERATION

If the Contractor, in good faith, before the effective date of the Government's election to purchase pursuant to the aforementioned option, places the additional aluminum smelting facilities in substantial operation, then the Government's exercise of its option to purchase shall become without effect, but the Government shall thereafter have the option to purchase said facilities if, at a later date, all of the conditions set forth in paragraph 1 of this Article XV recur, subject to the same terms and conditions of paragraphs 1 and 2 of this Article XV.

3. DEFINITION OF IDLENESS

For the purpose of paragraphs 1 and 2 of this Article XV, the additional aluminum smelting facilities shall be deemed to be substantially idle unless at least one (1) potline is in operation; and substantial operation of the additional aluminum smelting facilities shall consist of the operation of at least one (1) potline.

4. OPTION PURCHASE PRICE

The purchase price for the additional aluminum smelting facilities shall be such amount as shall fully reimburse the Contractor for the entire cost of the facilities to be purchased after deducting from such cost the profit or adding thereto the loss, as the case may be, resulting from the operation and maintenance of said facilities from the date of their initial operation to the effective date of the exercise of the option.

In computing the purchase price, the following adjustments shall be made and the principles herein stated shall be followed:

(a) TREATMENT OF TERMINATION PAYMENTS AND PRODUCTION CHARGES. There shall be deducted from the cost of the additional aluminum smelting facilities, the amount of termination payments paid by the Government to the Contractor on account of said facilities purchased, less production charges paid by the Contractor on account of said facilities.

(b) DETERMINATION OF PROFIT OR LOSS. In determining the Contractor's profit or loss: (i) Amortization and depreciation of said facilities to be purchased which has actually been taken shall be subtracted from the cost of operations. (ii) The cost of operations shall include all costs of starting up, shutting down and of maintaining said facilities purchased in standby condition, including all standby charges as well as all costs of cancelling commitments as a result of shutdowns. (iii) The costs of operation shall include a charge for alumina (in the operation of the additional aluminum smelting facilities) and any other materials furnished by the Contractor for operation of the additional aluminum smelting facilities at fair market prices but not less than the Contractor's cost of furnishing the same (including applicable depreciation and depletion at normal rates) plus a reasonable profit; *provided*, that if such alumina or other materials are purchased by the

Contractor from a wholly owned subsidiary, the charge to be included shall be at fair market value, but not less than such subsidiary's cost of furnishing the same (including depreciation and depletion at normal rates) plus a reasonable profit, with the further qualification that such computation of cost and profit shall be not more than such subsidiary is currently charging others for the same material. (iv) The cost of operation shall also include interest paid by the Contractor on borrowed money attributable to the construction or operation of the additional aluminum smelting facilities. (v) There shall be deducted from the profit of each year, or added to the loss of each year of operating such facilities, a pro rata share of the general administrative and selling expenses, and said expenses shall be prorated in the proportion which the net sales and the value of intracompany and intercompany transfers of products produced by the additional facilities bear to the total net sales and the value of intracompany and intercompany transfers of the Contractor and its wholly owned subsidiaries for said year, *provided*, that in the computation of the foregoing net sales and the value of intracompany and intercompany transfers there shall be no duplication, that any intracompany or intercompany sales or transfers shall be deemed to have been made at the Contractor's current published price, and that in calculating the foregoing proportion in connection with selling expenses, sales to the Government under this contract shall be excluded.

(c) PROFIT OR LOSS ON OPERATION OF OTHER FACILITIES NOT TO BE CONSIDERED. The Contractor's profit or loss in furnishing raw materials for the operation of the additional aluminum smelting facilities and in fabrication of any aluminum produced from said facilities shall be excluded from all computations of the purchase price of said facilities, it being understood that neither the profit nor loss resulting from the operation of any of the Contractor's facilities, other than those being purchased by the Government pursuant to this option, is to be taken into account in determining the purchase price.

(d) DEDUCTION OF TAX BENEFIT. There shall be deducted from such purchase price any tax benefit which may be realized by the Contractor as a result of the deduction by the Contractor of any net operating loss attributable to the additional aluminum smelting facilities (computed with the deduction of depreciation or amortization pursuant to the provisions of Section 124A of the Internal Revenue Code as actually allowed for the purposes of computing the Contractor's Federal income and excess profits tax liabilities) from net income from other operations of the Contractor.

(e) FURTHER ADJUSTMENTS AUTHORIZED. Notwithstanding anything in this Article XV to the contrary, it is the intent of said Article and of the parties that the Contractor shall be fully reimbursed for all of its expenditures as hereinabove defined for the construction, acquisition, maintenance, operation and shutdown of the additional aluminum smelting facilities purchased, without profit or loss to the Contractor (excluding, however, profit or loss from the production of raw materials and the fabrication of aluminum in facilities other than the additional aluminum smelting facilities), as if the Contractor had never owned said facilities. If payment of said purchase price does not so reimburse the Contractor because of taxes payable, then the purchase price shall be adjusted so that the Contractor is so reimbursed without profit or loss, as if the Contractor had never owned or operated the additional aluminum smelting facilities.

5. DELIVERY OF TITLE PAPERS AND PURCHASE PRICE

As promptly as possible after the receipt of notice of the exercise of the option, the parties shall compute and agree upon the purchase price. Upon the effective date of the option, the Contractor shall execute and deliver to the Government a deed to all of said property. The Contractor shall be obligated to convey only such title to the property as it or its subsidiaries hold at the time it receives the notice from the Government exercising the option, except that the property shall be conveyed free and clear of all liens and encumbrances for indebtedness incurred by the Contractor. At the same time the Contractor shall assign and transfer to the Government such contracts relating to the operation of the plant as it has the right to assign and transfer, and upon such assignment and transfer the Government shall assume all obligations for further performance thereunder. The purchase price shall become due and payable upon delivery of the deed by the Contractor to the Government. If the parties have not agreed upon the purchase price, then the Government shall pay to the Contractor the amount the Govern-

ment shall have computed as the purchase price, without prejudice to the right of the Contractor to negotiate further with the Government in an effort to arrive at a purchase price satisfactory to the Contractor, and, failing such agreement, without prejudice to whatever rights the Contractor may have to proceed in the Court of Claims to recover such amount which, when added to the amount which has heretofore been paid, shall in the judgment of the Court of Claims represent the appropriate purchase price computed under the provisions of this Article XV. In any such action in the Court of Claims the determination of an appropriate purchase price computed under the provisions of this Article XV shall be de novo, and any prior calculation or calculations by either party of any item or items entering into the computation of the purchase price theretofore paid to the Contractor, shall be without prejudice to either party in said action.

Article XVI—Administrator

As used herein, the term "Administrator" means the Administrator of General Services and his successors in function.

Article XVII—Performance by Subsidiaries

All or any part of the obligations of the Contractor under this agreement may be performed by and in the name of any wholly-owned domestic subsidiary corporation or corporations of the Contractor, and operations outside of the United States, its territories and possessions by domestic or foreign subsidiaries, *provided*, that the Contractor guarantees such performance, and in such event at the Contractor's request, any payment with respect to such portion of the contract so performed by the subsidiary shall be made to such subsidiary. It is further understood that the Contractor may make its sales of aluminum through a sales subsidiary corporation or corporations and that in such event, for the purposes of this agreement, the published prices of such subsidiary sales corporation or corporations or of the Contractor, whichever shall be lower, shall be deemed the published prices of the Contractor, and sales by such sales subsidiary corporation or corporations shall be considered the sales of the Contractor.

Article XVIII—Delivery of Ingot

It is understood that the Contractor intends to install equipment at the additional aluminum smelting facilities for the conversion of a portion of the capacity of such facilities from pig to ingot. The Contractor shall be obligated to deliver aluminum ingot to the Government or to nonintegrated users during any period to the extent of orders for ingot received under the terms of this agreement, but not to exceed the quantity of ingot which the Contractor is reasonably able to produce with the equipment installed at the additional aluminum smelting facilities during such period.

Article XIX—Point of Delivery

The Contractor shall ship aluminum ordered by the Government to such destination within the continental United States as is specified in each such order given pursuant to the terms of this contract, *provided*, that the delivery point shall be in accordance with the Contractor's standard terms and conditions applicable at the time of delivery. A delivery point other than in accordance with the Contractor's terms and conditions applicable to the price in effect at time of delivery may be specified upon the mutual consent of the parties. The Contractor shall be responsible for each shipment of aluminum covered by this contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risks of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from the Contractor to the Government.

Article XX—Inspection

1. inspection prior to final acceptance

All aluminum delivered to the Government pursuant to this contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places, including the period of manufacture, and in any event prior to final acceptance.

2. DEFECTIVE ALUMINUM

In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the requirements of this contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Administrator or his duly authorized representative, by and at the expense of the Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the rejection or requirement of replacement is disclosed. If the Contractor fails to promptly remove such aluminum when requested by the Administrator or his duly authorized representative, and to proceed promptly with the replacement thereof, the Government at its option may (a) by contract or otherwise replace such aluminum and charge to the Contractor the cost occasioned the Government thereby, or (b) terminate the right of the Contractor to make delivery of the amount of aluminum so rejected for default, or (c) accept the aluminum so rejected at an appropriate reduction of the contract price.

3. MANNER, PLACE AND TIME OF INSPECTION

If any inspection or test is made by the Government on the premises of the Contractor, the Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of the Contractor, it shall be at the expense of the Government, *provided*, that in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such manner as not to unduly delay the operations of the Contractor. The Government reserves the right to charge to the Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by the Contractor. Final acceptance or rejection of the aluminum shall be made as promptly as practicable after delivery, but in any event within thirty (30) days thereafter; but failure to inspect and, accept or reject aluminum shall neither relieve the Contractor from responsibility for such aluminum as is not in accordance with the contract requirements nor impose liability on the Government therefor.

4. CONSEQUENCES OF FINAL ACCEPTANCE

The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve the Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to final acceptance. Final acceptance shall be conclusive except as regards latent defects, fraud, or such gross mistakes as amount to fraud.

5. THE CONTRACTOR'S INSPECTION SYSTEM

The Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by the Contractor shall be kept complete and available to the Government during the performance of this contract and for three (3) years thereafter.

ARTICLE XXI—BUY AMERICAN ACT

1. APPLICABILITY

The Contractor agrees that there will be delivered under this contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this Article XXI as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act (41 U. S. Code 10a-c), the foregoing provision shall not apply (a) with respect to supplies excepted by the Administrator from the application of that Act, (b) with respect to supplies for use outside the United States, (c) with respect to the supplies to be delivered under this contract, which are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced,

or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (d) with respect to such supplies, from which the supplies to be delivered under this contract are manufactured, as are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, *provided*, that this exception (d) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

2. STATUS OF BAUXITE

The Administrator hereby determines for the purpose of this contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XXII—PRISON LABOR NOT TO BE EMPLOYED

In connection with the performance of work under this contract, the Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XXIII—THE EIGHT-HOUR LAW OF 1912

This contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912 as amended (40 U. S. Code 324–326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35–45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912 as amended, and to all other provisions and exceptions of said Law:

> No laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the Contractor or any subcontractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by the Contractor or any subcontractor engaged in the performance of this contract shall he computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon the Contractor for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government,

ARTICLE XXIV—THE WALSH-HEALEY ACT

If this contract is for the manufacture or furnishing of materials, supplies, articles or equipment in an amount which exceeds or may exceed ten thousand dollars ($10,000) and is otherwise subject to the Walsh-Healey Public Contracts Act as amended (41 U. S. Code 35–45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XXV—DISCRIMINATION IN EMPLOYMENT

In connection with the performance of work under this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and further agrees to insert the foregoing provisions in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XXVI—MEMBERS OF CONGRESS

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this contract, or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE XXVII.—CONTINGENT FEES

The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXVIII.—PERFORMANCE DURING DISPUTES

In the event of any dispute arising under this contract, the Contractor shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of this contract.

ARTICLE XXIX.—CONTROLLING STATUTE

This contract is entered into pursuant to the Defense Production Act of 1950, as amended (Public Law 774, 81st Congress; Public Laws 69 and 96, 82nd Congress).

IN WITNESS WHEREOF, the parties hereto have set their hands and seals this 19th day of October 1951. Executed in quadruplicate.

UNITED STATES OF AMERICA,
By JESS LARSON,
Administrator of General Services.

ALUMINUM COMPANY OF AMERICA,
By I. W. WILSON,
President.

Attest:

J. R. D. HUSTON,
Secretary.

[CORPORATE SEAL]

AMENDMENT NO. 1 TO CONTRACT NO. GS–OOP(D)–12096, BETWEEN THE UNITED STATES OF AMERICA AND ALUMINUM COMPANY OF AMERICA

Contract No. GS–OOP(D)–12096, executed October 19, 1951, between the United States of America and Aluminum Company of America, is hereby amended as follows:

1. Paragraph 6 of Article VIII of said contract is hereby deleted.

2. The first sentence of paragraph 1 of Article XV of said contract is hereby amended by deleting the phrase "one (1) year" in clause (c) of said sentence and inserting in place thereof the phrase "ninety (90) days".

IN WITNESS WHEREOF the parties hereto have executed this Amendment in quadruplicate this 27th day of February, 1953.

UNITED STATES OF AMERICA,
By RUSSELL FORBES,
Acting Administrator of General Services.

ALUMINUM COMPANY OF AMERICA,
By LEON E. HICKMAN,
Vice President.

Attest:

ALFRED M. HUNT,
Secretary.

[SEAL]

AMENDMENT NO. 2 TO CONTRACT NO. GS-OOP-(D)-12096 BETWEEN THE UNITED STATES OF AMERICA AND ALUMINUM COMPANY OF AMERICA

THIS AMENDMENT made as of the 1st day of November, 1952, by and between the United States of America (hereinafter referred to as the "Government"), acting through the General Services Administration, and Aluminum Company of America (hereinafter referred to as the "Contractor"), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania:

WITNESSETH:

WHEREAS, on October 19, 1951, the parties hereto entered into a contract numbered GS-OOP-(D)-12096 (hereinafter referred to as the "contract") providing for the production and sale by the Contractor of aluminum to be produced from a new aluminum smelting plant (hereinafter referred to as the "Rockdale plant") to be constructed by Contractor near Sandow, Milam County, Texas; and

WHEREAS, said contract contemplated the operation of the additional facilities with power from power generating facilities to be installed by the Contractor at said plant; and

WHEREAS, it has been determined that the first electric generating unit of said generating facilities cannot be placed in commercial operation until approximately November 30, 1953, and the second such electric generating unit until approximately January 31, 1954; and

WHEREAS it is contemplated that through the use of purchased power the first pot line at the Rockdale plant can be placed in operation approximately November 1, 1952, the second approximately December 1, 1952, and a portion of the third approximately May 15, 1953:

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter contained, it is agreed as follows:

ARTICLE 1. The Contractor agrees to operate the first, second and a portion of the third pot lines at the Rockdale plant by the use of purchased power as soon as possible after November 1,.1952, and to continue to operate each such pot line by purchased power, together with such power as may become available from the Contractor's facilities, until the first two units of Contractor's own generating facilities at said Rockdale plant are in operation or until January 31, 1954, whichever first occurs. The aluminum produced through the operation of pot lines 1, 2, and 3, as aforesaid, shall be primary aluminum pig as hereinafter provided in Article 4, and the amount thereof which does not exceed an aggregate of 55,000 short tons shall be subject to the terms and conditions of this amendment. Such amount shall include the additional production which will result from the use of Contractor's own generating facilities to the extent provided above.

ARTICLE 2. The Contractor agrees to sell to the Government and the Government agrees to purchase from the Contractor all of the aluminum produced pursuant to Article I hereof. Such sale shall be considered to be a sale to the Government pursuant to Article IV of the contract, except that (a) the price to be paid for such aluminum shall be as provided in Article 5 of this amendment, and (b) with respect to any delays, interruptions or cessations occasioned by force majeure, Article XII of the contract shall apply, except that the time for performance by the Contractor of its obligations to produce and deliver aluminum through the use of purchased power shall not be extended thereby, but rather the amount of aluminum which would otherwise have been produced during the existence of any such force majeure condition shall be considered to be deducted from the total amount of aluminum required to be produced hereunder through the use of purchased power.

ARTICLE 3. The Contractor agrees that during the period covered by this amendment it will not exercise any option to terminate the contract pursuant to Article XIII thereof.

ARTICLE 4. The aluminum to be produced and sold pursuant to this amendment shall be primary aluminum pig of a minimum grade of 99 percent aluminum, insofar as reasonably possible. In any event, such aluminum must be acceptable for use by domestic industry and must also be aluminum for which a price can be determined in accordance with the provisions of paragraph 1 of Article XI of the contract. Upon notice given as hereinafter provided, aluminum sold to the Government hereunder shall comply with the National Stockpile Material Specification P-62, latest revision as of the effective date of this amendment,

provided that the quantities of aluminum required to meet such specification shall not exceed the following percentages of production for the periods indicated:

Percentage required to meet stockpile specification

FIRST AND SECOND POTLINE

Period of production:	
April 1953	60%
May 1953	70%
June 1953	80%
July 1953 and thereafter	90%

PORTION OF THIRD POTLINE

4th Calendar month * of production	70%
5th Calendar month * of production	80%
6th Calendar month * of production and thereafter	90%

*Considering Calendar month in which production begins as the first month of production.

On or before May 1, 1953, the Government shall notify the Contractor in writing of the amount of the production of April, May, and June, 1953 which will be required to meet the Stockpile Specification. With respect to each subsequent three-months period, the Government shall notify the Contractor in writing at least thirty (30) days prior thereto of the amount of the production of such period which shall be required to meet the Stockpile Specification. Unless any such notice contains directions to the contrary, the Contractor is hereby authorized to resell the remainder of the production of each such period as provided in article 6 of this amendment. Contractor shall, upon request, advise the Government of the quantitites of aluminum which it estimates will be produced pursuant to this amendment during any such period.

ARTICLE 5. The price which the Government will pay Contractor for the aluminum produced during the interim period shall consist of the total of the following:

(a) The price specified in Paragraph 1 of Article XI of the contract, or 21½¢ per pound, whichever is lower. The contractor represents that the cost of production of aluminum at the Rockdale plant at the present time is approximately 22¢ per pound, exclusive of (1) any power costs in excess of four (4) mills per A. C. H. T. kilowatt hour, and (2) any cost of, or charge with respect to, the capacitors mentioned in subparagraph (c) of this Article 5.

(b) The cost of electric power purchased by Contractor pursuant to contract dated November 1, 1952, between Contractor and Texas Power and Light Company, a copy of which is attached hereto and made a part hereof as Exhibit "A", to the extent that such cost is in excess of four (4) mills per A. C. H. T. kilowatt hour, but not in excess of eight (8) mills per A. C. H. T. kilowatt hour. The Contractor will pay all such power charges and the Government will reimburse the Contractor for that portion of such charges which it has agreed to pay pursuant to this subparagraph. For the purpose of computing the total cost of such purchased power a calendar monthly average will be used except in the months of June, July, August and September 1953, when such costs shall be averaged for the said four-month period. In order to minimize the purchase of power at excess cost, Contractor agrees to use its own power generating facilities to the greatest extent possible as soon as they can be installed and operated.

(c) The sum of $20,000, 1/15th of such sum being payable each month, beginning November 1952, and ending January 1954. This amount of $20,000 is reimbursement to the Contractor for the use of additional capacitors (estimated to cost, including installation, $250,000) required on the transmission line of its wholly owned subsidiary, Carolina Aluminum Company, to transmit effectively the high cost power to be purchased by the Contractor to carry out this contract. However, after Texas Power and Light Company has completed its delivery of power under Exhibit A, and if the Contractor thereafter uses, leases, sells or otherwise disposes of the aforementioned additional capacitors prior to November 1, 1954, it shall refund to the Government an amount computed at the rate of $27.78 per day for each day of using or for each day between the date it leases, sells or otherwise disposes of said capacitors and November 1, 1954, adjusted appropriately for partial disposition. Contractor agrees to use its best efforts to the end that said capacitors will be so used or disposed of as soon as practicable after such delivery of power has been completed.

ARTICLE 6. With respect to all or any part of the aluminum sold by the Contractor to the Government hereunder the Contractor agrees that upon the written request or authorization of the Government the Contractor will, without any cost to the Government, act as the Government's agent for the resale of said aluminum for further fabrication or other use in the United States of America, and that the Contractor will invoice the buyer thereof as such agent. The price at which such aluminum is to be so resold shall be the price specified in Paragraph 1 of Article XI of the contract. Such resale shall be made in accordance with allocations, if any, made by the National Production Authority or other authorized Government agency, and may include resales to the Contractor. The resale documents which the Contractor executes as such agent shall be signed as follows: Aluminum Company of America, As Agent for the United States of America acting through the General Services Administration.

ARTICLE 7. The Contractor shall be paid for all aluminum sold to the Government hereunder (after such aluminum has been delivered and accepted) upon the submission of properly certified invoices or vouchers showing separately the various components of the purchase price herein provided in Article 5. Upon any such invoice or voucher, the Contractor shall show as a credit and a deduction from the amount of said invoice or voucher the resale price paid to the Contractor and then due and owing to the Government for any aluminum resold by the Contractor as agent for the Government under the provisions of Article 6 above. Such invoices or vouchers shall be submitted monthly and shall be accompanied by receipted bills or photostatic copies thereof evidencing the charges for power used to produce the aluminum covered by the invoice or voucher and the payment of such charges by the Contractor, and by such other information, records, or reports as the Government may reasonably require. All such invoices or vouchers and supporting evidence shall be addressed to:

General Services Administration
Defense Accounts Division
Examination Branch
7th and D streets SW.
Washington 25, D. C.

ARTICLE 8. The Contractor shall keep good and adequate records in accordance with sound accounting practice showing on a monthly basis the following:

(a) The quantities of primary aluminum pig produced pursuant to this amendment.

(b) The charges for power necessary to produce such aluminum.

(c) The quantities of such aluminum resold by the Contractor as agent for the Government and the resale price or prices.

(d) Such other records as the Government may reasonably require. All such records shall be available for inspection and audit by the Government at all reasonable times during the period of this amendment and for three (3) years thereafter.

ARTICLE 9. Subject to such allocations or priorities in delivery as may be required pursuant to law and subject to any existing contractual commitments of the Government, the quantities of aluminum sold to the Government hereunder which are required to meet the Stockpile Specification and which are transferred to the National Stockpile shall be considered to be a part of the stockpile aluminum required from the overall operations of the Contractor and shall be so credited on the records.

This amendment is entered into pursuant to the Defense Production Act of 1950, as amended (Public Law 774, 81st Congress; Public Laws 69, 96, and 429, 82nd Congress).

IN WITNESS WHEREOF, the parties hereto have executed this amendment in quadruplicate this 20th day of April, 1953, effective as of November 1, 1952.

UNITED STATES OF AMERICA,
By A. J. WALSH,
Commissioner, Emergency Procurement Service, General Services Administration.

ALUMINUM COMPANY OF AMERICA,
By F. L. MAGEE, *Vice President.*

Attest:
[SEAL]

ALFRED M. HUNT,
Secretary.

EXHIBIT A

TEXAS POWER & LIGHT COMPANY,
Dallas, Texas, November 1, 1952.

ALUMINUM COMPANY OF AMERICA,
Rockdale, Texas.

GENTLEMEN: We have prepared our forecast of load and capacity for 1953, giving consideration to our peak load of 1952, and we have received certain information from systems with which we are interconnected or can interconnect. Based upon this data and information we contemplate that we can supply your initial potline, all construction load for the project, water pumping and mine loads and additional potline load at your Rockdale works, aggregating approximately 100,000 kw. This supply to you shall be subject to availability from the reserve capacities of our system and the systems in Texas, Oklahoma, and Louisiana with whom we interconnect, and to the securing of exemption order from the Federal Power Commission. The period of this supply to your potlines shall be for fifteen months duration beginning November 1, 1952. Any difference from this period shall be subject to further agreement.

Until your first electric generating unit near Rockdale, Texas, is ready for commercial operation at a load of at least 45,000 kw, the power and energy for the initial potline up to 45,000 kw, including losses from the point of delivery at your Rockdale works to the 13.8 kilovolt bus of your substation, shall be supplied at a demand charge of $1.15 per kilowatt per month, based upon the maximum one-half hour registered demand computed to have been applicable at the point of delivery during any billing period (but computed on a weekly basis until the end of the sixth month after the initial operation of said potline, and the demand charge for any such week to be no less than the maximum demand charge established in any preceding week) plus an energy charge of 3 mills per kilowatt-hour.

The Monthly charge for power and energy for additional potline operations and for the construction, water pumping and mining operations shall be according to our schedule LP–3000. A copy of our schedule LP–3000 is attached. After your first generating unit is in commercial operation and monthly minimum charge set forth in LP–3000 shall be inapplicable. The right to increase rates to reflect an increase in commodity price or new or increased taxes as detailed in schedule LP–3000 shall not be invoked unless generally invoked by us with respect to all consumers subject to such increase.

The above charges shall be adjusted to cover:

(a) The cost to us in excess of 4 mills per kilowatthour at the points of delivery to us for power and energy purchased by us from other utilities to enable us to meet your requirements (the fuel adjustment clause of schedule LP–3000 shall not be applicable to such purchased energy), excluding purchases from Texas Electric Service Company and Lower Colorado River Authority, and

(b) The installed cost, less net salvaged value, or in place system value (if continued in service) of capacitors to facilitate receiving power and energy through the so-called Overton tie (with Southwestern Gas & Electric Company) to enable us to meet your requirements. It is not expected that these capacitors will be required but they may be necessary to maintain the necessary minimum voltage on that part of our system which must be blocked off to facilitate the delivery of power and energy under this agreement. The installed cost of the capacitors will not exceed $80,000 without your further approval.

We estimate that such purchased energy subject to paragraph (a) above may aggregate 215,000,000 kilowatt-hours during the life of this Agreement, and it is agreed that if such purchases should exceed 300,000,000 kilowatt-hours that such additional purchases will be discussed with you and be subject to your approval.

The purchased energy subject to paragraph (a) above will be obtained from three primary sources, Dallas Power & Light Company, Southwestern Gas & Electric Company, and Oklahoma sources through the Denison tie. In addition, some energy may possibly be purchased from other sources if availability or lower costs make it advisable. We agree to use due diligence to obtain this power at the lowest possible cost.

Any agreements to be made by us that will involve charges to you through application of paragraphs (a) and (b) above, will be discussed with you, and will be subject to your approval.

Very truly yours,

TEXAS POWER & LIGHT COMPANY,
By /s/ LEE E. COOK, *Vice President.*
ALUMINUM COMPANY OF AMERICA.
By /s/ J. D. HARPER.

Encl.
Accepted: January 31, 1953.

TEXAS POWER & LIGHT COMPANY TRANSMISSION LINE SERVICE (GENERAL)
SCHEDULE LP–3000

Revised March 1, 1951

Code 333

APPLICATION

Applicable to any customer for all electric service supplied at one point of delivery and measured through one meter.

Not applicable to resale or breakdown service in any event, nor to temporary, standby, or supplementary service except in conjunction with applicable rider.

NET MONTHLY RATE

$3,925.00 first 3000 kw, or less, of Demand
1.25 per kw all additional kw of Demand, and
.75¢ per kwh first 50,000 kwh
.45¢ per kwh all additional kwh

Minimum: $1.65 for each kw of the highest Demand established during the 12 months ending with the current month.

Plus 0.1 mill per kwh of energy taken for each full one-half cent by which the average cost per million British thermal units of all fuel delivered at the points of firing at Company's thermal power plants during the three months' period ending one month previous to the month under consideration was above five cents.

Minus or plus one-half of one per cent of the amount computed at the above stated rate for each whole point in the "All Commodities" index below 100 or above 175, respectively. For this purpose there shall be employed the average of the twelve most recently published monthly values for the "All Commodities" index taken from "Wholesale Prices" compiled by the United States Department of Labor (adjusted to a 1926 base if any other date should be employed for the base by the United States Department of Labor). A new determination of such twelve-month average shall be made at the beginning of each calendar quarter, and the figure so found shall apply for billing for the whole of such quarter. Failure at any time and from time to time to apply this provision in the event of variation in such "All Commodities" index shall not constitute waiver of rights to apply subsequently such provision above said index of 175.

Plus the proportionate part of any new tax, or increased rate of tax, or governmental imposition or charge (except state, county, city, and special district and valorem taxes and any taxes on net income) levied or assessed against the Company or upon its electric business, or imposed upon the Company under its fuel purchase contracts, as the result of any new or amended laws or ordinances after January 1, 1951.

DETERMINATION OF DEMAND

The average kw supplied during the three 15-minute periods of maximum use during the current month, as determined by Company's demand meter, but not less than 3,000 kw.

TYPE OF SERVICE

Service will be delivered and metered at 60,000 volts or higher except that Company may elect to meter at less than the delivery voltage, in which event an adjustment will be made to cover transformer losses by increasing the demand and energy registrations, for billing purposes, by a calculated percentage to be stipulated in the Agreement for Electric Service of which this Schedule constitutes a part.

PAYMENT

Bills are due when rendered, and become past due if not paid within ten days thereafter. Service to customers having past due bills may be discontinued as provided in Company's Service Regulations and an additional charge of not less than $5.00 will be made before service is restored.

CONTRACT PERIOD

As provided for in the agreement for service.

NOTICE

This established schedule is subject to any change authorized by law, and to the provisions of Company's Service Regulations.

GS-OOP(D)—12143

Contract

BETWEEN

UNITED STATES OF AMERICA

AND

KAISER ALUMINUM & CHEMICAL CORPORATION

EXECUTED DECEMBER 7, 1951

AS OF NOVEMBER 6, 1951

CONTRACT

THIS CONTRACT, entered into as of the 6th day of November, 1951, by the UNITED STATES OF AMERICA, herein called the Government, acting through the Administrator of General Services, herein called the Administrator, and KAISER ALUMINUM & CHEMICAL CORPORATION, a corporation existing under the laws of the State of Delaware, herein called Contractor,

WITNESSETH:

ARTICLE I.

SALE AND PURCHASE OF ALUMINUM.

Subject to the terms and conditions hereof, Contractor agrees to produce and to sell Five Hundred Thousand (500,000) short tons of 2,000 pounds each, of primary aluminum pig, said primary aluminum to be of minimum grade of ninety-nine per cent (99%) aluminum, which primary aluminum is herein called the "additional production". Contractor will produce such aluminum from facilities which Contractor agrees hereafter to construct, herein called the "additional facilities". Such production and sale shall commence upon the date of completion of the additional facilities (as defined hereinafter) and shall continue thereafter at a rate of approximately One Hundred Thousand (100,000) short tons per year, except that for the first six months of operation after the date of completion of the additional facilities, production may be at such lesser rate as may be necessarily inherent in newly constructed facilities. Such production and sale shall continue until Five Hundred Thousand (500,000) short tons of aluminum have been so produced from the additional facilities after the date of completion of construction (as defined hereinafter) and shall be completed within a period of six years after such date of completion, but in no event later than June 30, 1959, unless extended as hereinafter provided in ARTICLE XII. The date of completion of construction of the additional facilities shall be the first day upon which ninety per cent (90%) of the electrolytic cells, which are to be constructed as a part of the additional facilities, are tapped. Upon the occurrence of such event, Contractor shall forthwith issue a certificate to the Government certifying such date to be the date of said completion.

ARTICLE II.

CONSTRUCTION OF ADDITIONAL FACILITIES.

Contractor shall proceed without delay to construct and acquire the additional facilities for the production of said aluminum. The "additional facilities" shall consist of:

(a) "Additional aluminum reduction facilities," consisting of:

four (4) additional pot lines having an aggregate capacity of approximately one hundred thousand (100,000) short tons of aluminum per year and a power plant with a capacity of approximately two hundred twenty-five thousand (225,000) kilowatts to be generated from natural gas, together with the necessary auxiliary facilities, all to be located adjacent to Contractor's New Orleans (Chalmette), Louisiana, Plant now under construction;

(b) "Additional alumina facilities," consisting of:

expansion of Contractor's Baton Rouge, Louisiana, Plant to the extent required to produce approximately an additional two hundred thousand (200,000) short tons of alumina per year; and

(c) "Additional bauxite facilities," consisting of:

expansion of Contractor's bauxite facilities and properties located in Jamaica, British West Indies, to the extent required to produce approximately an additional four hundred seventy-five thousand (475,000) short tons of bauxite per year.

As used in this Contract, the terms "additional facilities", "additional aluminum reduction facilities", "additional alumina facilities" and "additional bauxite facilities" shall have the meaning set forth in this ARTICLE II.

ARTICLE III.

Disposition of Production From Additional Aluminum Reduction Facilities.

Commencing with the date of completion of the additional facilities, and continuing until the termination or completion of this Contract, and subject to priority delivery as may be required pursuant to law, the aluminum produced at the additional facilities shall be disposed of as follows:

(a) (1) The Government may require Contractor to sell to it, at the price provided in Article XI hereof, all or any of the additional production for each consecutive six-month period during the continuance of this Contract, the first such period commencing with the date of completion of the additional facilities.

(2) Contractor shall, ninety (90) days before the date it estimates the additional facilities will be completed, advise the Government of the estimated date of completion, the estimated duration of the initial period after completion and the amount of aluminum Contractor estimates it will produce from the additional facilities during the initial period after completion. The initial period shall run from the date of completion of the additional facilities to the termination date of the then current six-month period effective pursuant to subparagraphs (a) and (b) of Article III of the contract between the parties executed February 2, 1951, as of December 19, 1950, provided that if such termination date is less than ninety (90) days after the date of completion of the additional facilities, the initial period shall extend to the termination date of the following six-month period specified in subparagraphs (a) and (b) of Article III of said contract executed February 2, 1951, as of December 19, 1950. It is recognized that, after the additional facilities are completed within the meaning of this Contract, additional time thereafter will be required to bring the aluminum reduction pots to full capacity, and that production for the initial period

after completion of the additional aluminum reduction facilities may be less than the production in subsequent six-month periods. Within thirty (30) days after receipt of such notice, the Government shall notify Contractor in writing of the amount of aluminum it elects to purchase during the initial period commencing with the date of completion of the additional facilities. The notice shall be a firm order for the purchase of the quantity stated, and deliveries to the Government shall commence as soon as practicable after the date of completion of the additional facilities. Notwithstanding such estimate, Contractor shall not be obligated to deliver to the Government aluminum in excess of the amount produced at the additional facilities during said period.

(3) Thereafter, at least ninety (90) days prior to the beginning of each subsequent six-month period during the continuance of this Contract and before completion thereof, the Government shall give notice in writing to Contractor of the amount of aluminum it elects to purchase from the production of the additional facilities for such period. Each such notice, when given, shall be a firm order for the purchase of the quantity stated. If no notice is given within the time provided in the preceding sentence, Contractor shall be under no obligation to deliver aluminum to the Government pursuant to this ARTICLE III during the following six-month period.

(4) The Government shall in each such notice specify the amount of aluminum it desires to have comply with the latest revision of the National Stock Pile Material Purchase Specification P-62 in effect on the effective date of this Contract. Thereafter, Contractor shall deliver such quantities in accordance with such specification, *provided,* that the Government may not order more than sixteen thousand six hundred sixty-seven (16,667) short tons of aluminum meeting the Stock Pile Specification in any six-month period, or proportionate amounts in longer or shorter periods.

(5) It is the intent of the parties that the Administrator will exercise the Government's right to purchase aluminum

under this ARTICLE III(a) so as to purchase approximately equal percentages of the additional production produced by Contractor, by Aluminum Company of America and by Reynolds Metals Company, respectively, under the Government's entire program of expanded aluminum production, and the Administrator agrees that, insofar as practicable, the Government will not purchase from Contractor under this ARTICLE III(a) quantities which are proportionately larger, in relation to Contractor's portion of the entire program of expanded aluminum production, than the quantities being purchased from such other companies; *provided,* that in the absence of Government price controls the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this subparagraph.

(6) Deliveries under all orders pursuant to this subparagraph (a) shall be made in approximately equal monthly quantities, unless a different delivery schedule is specified in the Government's notice; *provided,* however, that the Government shall not specify for delivery in any one month a quantity greater than one month's productive capacity of the additional facilities.

(b) (1) For the initial period and each consecutive six-month period thereafter referred to in subparagraph (a) above, Contractor shall offer pig, ingot or billets for sale to non-integrated users, at the price provided in ARTICLE XI hereof, in the aggregate quantity, if any, by which the amount ordered by the Government for such period, in accordance with subparagraph (a), is less than two-thirds of the reasonably estimated additional production for such period. As used in this Contract, the term "non-integrated user" shall mean any manufacturer, fabricator, finisher or producer in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing such aluminum for his own manufacturing, fabricating, finishing or producing operations. Said offer shall be made for a period of at least thirty (30) days and shall be made by

publishing a notice in "The American Metal Market" or by such other method as Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during a period of thirty (30) days from the date of first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least thirty (30) days prior to the beginning of the initial period and at least sixty (60) days prior to the beginning of each subsequent period.

All orders shall be subject to Contractor's acceptance, to Contractor's approval of the credit of the purchaser and to Contractor's standard terms and conditions of sale then in effect. Subject to the provisions of the foregoing sentence, Contractor shall accept on a first-come first-served basis sufficient orders from non-integrated users to equal the quantity thus offered for sale, as above provided, but thereafter shall have no obligation to accept any further orders from non-integrated users for the period. Nothing herein shall prohibit Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other non-integrated users for such period. If, pursuant to the terms of this ARTICLE, the amount of aluminum which Contractor is obligated to offer for sale to such non-integrated users is zero, then Contractor need not publish the notice or make the offer to non-integrated users referred to above.

It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(2) It is recognized that Contractor has made and intends in the future to make contracts with such of its customers who are non-integrated users for the delivery of aluminum pig, ingots and billets which may be produced from the additional facilities. The maximum quantity of aluminum which Contractor may be obligated to deliver pursuant to such commitments for any applicable period may be deducted from the quantity which Contractor is obligated to make available to other non-integrated users for such period under this subparagraph (b), provided that Contractor may not so deduct any quantities to be delivered pursuant to any contract which requires Contractor to deliver in excess of Five Hundred Thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Administrator. The Administrator shall be deemed to have approved any such contract unless he disapproves the same and so notifies Contractor in writing within fifteen (15) days after written notice has been received by him of the terms of such contract. Any quantity so deducted by Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such period, shall be added to the quantity which Contractor is obligated to offer to non-integrated users during the subsequent period.

(3) If, after receiving the notice from the Government of the amount of aluminum it elects to purchase as provided in subparagraph (a) hereof, Contractor finds that the quantity ordered by the Government for any such period is such that it may be impossible for Contractor to fulfill its prior commitments to such other customers as are non-integrated users, Contractor may advise the Administrator of such fact. The Administrator shall thereupon review the quantity ordered by the Government and if under all of the circumstances the Administrator considers it advisable, he may reduce the quantity ordered by the Government.

(c) Any quantity of additional production from the additional facilities not disposed of in accordance with this ARTICLE

III, and not otherwise sold or utilized by Contractor, may be tendered to the Government, in the form of pig only:

(1) during the period commencing with the date of completion of the additional facilities and terminating on the termination date of the then current twelve (12) month period effective pursuant to subparagraph (c) of ARTICLE III of the contract between the parties, executed February 2, 1951, as of December 19, 1950, provided that if such termination date is less than ninety (90) days after the date of completion of the additional facilities, such period shall extend to the termination date of the following twelve (12) month period, effective pursuant to subparagraph (c) of ARTICLE III of said contract executed February 2, 1951, as of December 19, 1950, and

(2) during each subsequent consecutive twelve (12) month period.

Such tender, or tenders, shall be made during the first ten (10) days of any calendar month during any such period and during the first ten (10) days following the expiration of such period and all of such tenders shall be considered to be applicable to such period. The Government shall purchase the amount so tendered at the price specified in ARTICLE XI. The Government shall not be required to buy under this subparagraph (c) for any period specified in this subparagraph (c) more than the actual output of the additional aluminum reduction facilities during such period, less the quantity of such additional production disposed of in accordance with this ARTICLE III and otherwise sold or utilized by Contractor.

(d) In no event, except as provided in ARTICLE VII and ARTICLE IX, shall the Government be obligated to order or to purchase, or Contractor be obligated to accept orders from either the Government or non-integrated users for, an amount of aluminum which, added to the prior production and sale or utilization by Contractor of aluminum from the additional facilities after the date of completion of such facilities, exceeds Five Hundred Thousand (500,000) short tons.

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ARTICLE IV.

Sale of Production Before Completion of Additional Facilities.

The Government may require the sale to it of all or any part of the aluminum produced from the additional facilities from the date of the beginning of commercial production and prior to the date of completion of the facilities. Such sale shall be at the price provided in ARTICLE XI hereof. When Contractor is reasonably able to do so, and between ninety (90) days and sixty (60) days before the date Contractor estimates commercial production will begin, it shall advise the Government of the time when it estimates that aluminum will first be commercially produced at the additional facilities and of the quantity which it estimates will be produced from such time until the date of completion of the facilities. Between sixty (60) days and thirty (30) days prior to the estimated date when aluminum will first be commercially produced, the Government shall notify Contractor in writing of the amount of such metal it desires to purchase, which notice shall be a firm order by the Government to purchase the quantity of aluminum specified therein at the price and upon the terms and conditions herein set forth for the sale of aluminum to the Government after completion of the additional facilities, except that during such period Contractor shall not be required to deliver any aluminum of stockpile specifications beyond Contractor's reasonable ability to do so during said period, or any aluminum in an amount exceeding the production of the additional facilities. Contractor shall offer in pig or ingot form for sale to non-integrated users, at the price provided in ARTICLE XI hereof, the quantity, if any, by which the amount ordered by the Government for said period is less than two-thirds of the estimated production from the additional facilities for such period, subject to the terms and conditions of ARTICLE III(b). Any quantity of aluminum produced during this period shall not reduce the quantities otherwise specified in this Contract, and specifically shall not be included as a por-

tion of the Five Hundred Thousand (500,000) tons specified in ARTICLE I.

ARTICLE V.

PAYMENT FOR ALUMINUM DELIVERED TO THE GOVERNMENT.

Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

ARTICLE VI.

RELATIONSHIP OF ADDITIONAL TO EXISTING FACILITIES.

(a) It is the intention of this Contract that the Government, by agreeing to purchase aluminum from the additional facilities as herein provided, guarantees the disposition of the entire output of the additional facilities to the extent of the Five Hundred Thousand (500,000) ton quantity specified in ARTICLE I, subject to its right of termination as provided in ARTICLE XIII and Contractor's rights of termination as provided in ARTICLE XI (b) and ARTICLE XIII. In this connection, it is recognized that Contractor now has other aluminum reduction facilities (including those presently under construction pursuant to that contract executed by the Government and Contractor on February 2, 1951, as of December 19, 1950), and may in the future acquire further aluminum reduction facilities other than those to be constructed under this Contract. It is understood that, except as to orders from the Government expressly placed pursuant to this Contract for aluminum to be produced at the additional facilities to be constructed under this Contract, Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such other facilities, before disposing of or utilizing aluminum from the additional facilities, and that,

in accordance with ARTICLE III(c), the Government will purchase from Contractor all of the production of the additional facilities not otherwise disposed of or utilized by Contractor. The Government does not, by this Contract, guarantee or agree to purchase production from other facilities.

(b) Without affecting the rights and duties of the parties as set forth in the preceding subparagraph, deliveries to the Government under this Contract may, at Contractor's option, be made by substituting aluminum produced from other facilities for aluminum actually produced at the additional facilities. In such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

(c) In the event that it becomes an economic burden for Contractor to continue to operate some or all of the additional facilities, as well as its existing facilities, Contractor may petition the Administrator, setting forth all of the facts and asking for the privilege of closing down all or any portion of the additional facilities that it considers uneconomic and of delivering from other facilities the aluminum to be delivered to the Government or the non-integrated users hereunder. Upon receipt of such petition, the Administrator shall give careful and due consideration to such request and grant such relief, if any, as he considers equitable to Contractor, on such terms and conditions as he may determine, including, but not by way of limitation, a provision (1) that Contractor continue to make aluminum available to non-integrated users in the quantities and under the terms and conditions set forth in ARTICLE III(b), and (2) if the Administrator deems it appropriate, that Contractor shall not be subject to the provisions for purchase by the Government of all or part of the additional facilities under ARTICLE XV while and so long as Contractor operates (or closes down) the additional facility or facilities to the extent and during the period specified by the Administrator in his grant of relief.

ARTICLE VII.

SALE OF ALUMINUM TO NON-INTEGRATED USERS FOR FIFTEEN YEARS.

As an inducement to the Government to enter into this Contract, and as part of the consideration of this Contract, Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in ARTICLE I or from and after the effective date of termination by Contractor pursuant to ARTICLE XI(b) hereof, or until any loan guaranteed by the Government pursuant to ARTICLE X is fully repaid, whichever shall be the longer, (but not beyond the effective date of the exercise by the Government of its option to purchase the additional aluminum reduction facilities pursuant to ARTICLE XV hereof), Contractor will each year make available for sale to non-integrated users, under credit conditions as to each purchaser satisfactory to Contractor, at Contractor's lowest published market price for the grade of aluminum involved as of date of delivery, and on Contractor's current standard terms and conditions of sale at time of purchase, a quantity of aluminum equal to twenty-five (25) per cent of the annual capacity of the additional facilities, *provided,* however, that the obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of Contractor's production year, make firm purchase commitments with Contractor for specified quantities for such production year. Said aluminum will be offered on a first-come, first-served basis, except that in the event Contractor for any year receives orders in excess of such twenty-five (25) per cent, nothing herein shall prohibit the Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this ARTICLE. Nothing contained in this ARTICLE shall require Contractor to operate the additional facilities, but Contractor shall be obligated to make available a quantity equal to twenty-five (25) per cent of the capacity of such additional facilities whether or not said facilities are actu-

ally operated. It is understood and agreed that (1) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (2) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VIII.

TERMINATION.

(a) If Contractor shall terminate this Contract pursuant to ARTICLE XI(b), the termination provisions of subparagraphs (b) through (d) of this ARTICLE VIII shall apply.

(b) If Contractor, at any time after such termination and before the cost of all the groups of additional facilities to be constructed hereunder—to wit, the additional bauxite facilities, the additional alumina facilities, and the additional aluminum reduction facilities, respectively—has been completely amortized, depreciated, or otherwise deducted for Federal income tax purposes, notifies the Administrator that it intends to elect, with respect to any or all of said groups of facilities the cost of which has not been completely so amortized, depreciated or otherwise deducted, to avail itself of the provisions of Section 124A(g) of the Internal Revenue Code, as amended by Section 216 of the Revenue Act of 1950, and to receive a termination payment as defined in Section 124A(g)(1)(A) with respect to such group or groups of facilities:

(1) Contractor shall give written notice to the Administrator of its intention so to elect and thereupon there shall become due and payable from the Government to Contractor a termination payment equal to the adjusted basis, as com-

puted for amortization purposes for Federal income tax purposes, pursuant to the provisions of Section 124A(e) of the Internal Revenue Code, of such group or groups of facilities as of the beginning of the month in which such notice of intention to elect is given by Contractor; *provided,* however, that no termination payment shall be made pursuant to this subparagraph unless such payment is certified as provided in Section 124A(g). The election by Contractor, referred to in this subparagraph, as to any of said groups of facilities need not be made simultaneously but may be made at any time as to any group until the cost of such group has been amortized to the extent of the adjusted basis thereof for amortization purposes as defined by Section 124A(e) of the Internal Revenue Code. It is the intent of the Administrator and Contractor that any termination payment which may be made pursuant to the provisions of this subparagraph will be compensation to Contractor for the unamortized cost of an emergency facility because a contract with the United States involving the use of the facility has been terminated by its terms or by cancellation as provided in Section 124A(g) of the Internal Revenue Code, as amended by Section 216 of the Revenue Act of 1950, and the Administrator agrees to recommend to the certifying authority specified in Section 124A(g) that such authority so certify.

(2) If Contractor intends to elect to avail itself of the provisions of Section 124A(g) of the Internal Revenue Code in respect to any group or groups of such emergency facilities, and has given written notice of such intention to the Administrator, but the certifying authority designated pursuant to the provisions of such section does not, in respect to any one or more of such groups of emergency facilities, certify by the end of Contractor's fiscal year in which such notice of election is made, that the payment is a payment as compensation for the unamortized cost of an emergency facility made because a contract with the United States, involving the use of such facility, has been terminated by its terms or by cancellation, or if Sec-

tion 124A(g) shall have been repealed or modified in such a way as to prevent the issuance of a certificate to Contractor before any termination payment authorized under subparagraph (b)(1) of this ARTICLE is requested or received, then there shall become due and payable from the Government to Contractor in respect to such group or groups of facilities the cost of which shall not have been completely amortized, depreciated or otherwise deducted, upon Contractor's written request therefor, a termination payment which shall become due and payable in portions as follows: In Contractor's fiscal year in which Contractor so requests such termination payment with respect to any such group of facilities, the Government shall pay to Contractor an amount equal to the amortization deduction allowable with respect to such group of facilities for Federal income tax purposes for the period commencing with the month in which the notice of election to receive a termination payment is given and ending with the close of such fiscal year, and said payment shall become due and payable as of the month in which such notice of election was given; and as of July 1 of each fiscal year of Contractor thereafter, the Government shall pay to Contractor an amount equal to the amortization deduction allowable with respect to such group of facilities for Federal income tax purposes for such fiscal year reduced by an amount equal to the aggregate of the production charges computed under subparagraph (b)(3) of this ARTICLE VIII on the following basis:

(A) for the first fiscal year subsequent to the year in which the request for payment is made, on each ton of aluminum produced between the first day of the month in which the notice of election is made and the first day of July next following;

(B) for each subsequent fiscal year, on each ton of aluminum produced during the twelve (12) months immediately preceding the first day of July of such fiscal year.

(3) If Contractor receives a termination payment or payments with respect to one or more groups of facilities pur-

suant to subparagraphs (b)(1) or (b)(2) of this ARTICLE, Contractor shall pay to the Government a production charge as hereinafter specified on each ton of aluminum produced from the additional facilities after the receipt of each such payment and sold or utilized. Said production charge shall be paid by Contractor regardless of whether Contractor itself shall or shall not at any particular time or times, or from time to time, own or occupy said additional facilities, and regardless of whether, at any particular time or times, or from time to time, the operation of said additional facilities or the production of aluminum therefrom is effected by Contractor or by some entity other than Contractor; *provided*, however, that no production charge shall be payable if or after the Government purchases said facilities under the provisions of ARTICLE XV of this Contract. The production charge per ton with respect to each such group of facilities shall be seventy-five per cent (75%) of an amount determined by dividing (a) the number of tons obtained by subtracting from Five Hundred Thousand (500,000) tons of aluminum the number of tons of aluminum actually produced from the additional facilities pursuant to this Contract from the date of completion of the additional facilities to the termination date, into (b) the adjusted basis, as of the termination date, as computed for amortization purposes for Federal income tax purposes pursuant to the provisions of Section 124A(e) of the Internal Revenue Code, of such group of facilities with respect to which the termination payment was received. Such production charge shall be made with respect to each group of facilities either until the expiration of fifteen (15) years from the receipt of such termination payment or the first portion thereof in respect of such group of facilities (and in such event shall also be paid on all aluminum produced from the additional facilities but not yet sold or utilized at the expiration of such fifteen-year period), or until the total of such production charges paid equals the amount of the total termination payment in respect of such group of facilities, whichever first occurs. After the occurrence of either said event, Contractor shall be under no further obliga-

tion to pay such production charge in respect of such group of facilities. If a termination payment is made under the provisions of subparagraph (b) (2) of this ARTICLE VIII with respect to any group of facilities, the production charge with respect to such termination payment shall be computed for purposes of determining the amount of such termination payment or any portion thereof, and no production charge reflected in such computation shall be otherwise payable.

(4) Within ninety (90) days after the end of each month after the date of the receipt of any termination payment or the first portion thereof and until Contractor's obligation to pay all production charges has expired, Contractor shall furnish to the Government a certified statement of the number of tons of aluminum produced from the additional facilities and sold or utilized during such monthly period and shall, with such certificate, pay to the Government the amount of production charges due for such period.

(5) Contractor may, at its option, pay any production charge in advance, but shall in no event be required to pay any production charges except for aluminum actually produced from the additional facilities, and sold or utilized (including aluminum produced from the additional facilities but not yet sold or utilized at the expiration of such fifteen-year (15) period).

(6) If the rate of such production charges, as calculated above, shall become an undue economic burden to Contractor and Contractor shall so demonstrate to the satisfaction of the Administrator, then the Administrator shall grant such reduction in such rate and such extension of the period during which such reduced rate shall be payable upon actual production, as he may deem appropriate.

(7) In the event of termination of this Contract by Contractor as provided in subparagraph (b) of ARTICLE XI the sole right and remedy of Contractor, either at law or equity, shall be to receive a termination payment or pay-

ments, under the circumstances and subject to the terms and conditions set forth in this ARTICLE.

(c) Except as provided in subparagraph (b)(2) of this ARTICLE, if Contractor, after termination, does not elect to avail itself of the provisions of Section 124A(g) of the Internal Revenue Code, but continues to take the sixty (60) month amortization deduction authorized by Section 124A of said Code with respect to all of the additional facilities until the expiration of the sixty (60) month period, then the Government shall not be obligated to make any termination payment to Contractor, provided that Contractor may, at its option, elect to avail itself of the provisions of such Section 124A(g) as to any of the additional facilities at any time after termination and prior to the expiration of such sixty (60) month period, and upon so doing, will be entitled to such termination payments as hereinbefore provided.

(d) Nothing in this Contract is intended to limit or curtail Contractor's statutory right to discontinue amortization deductions under Section 124A of the said Code at any time, *provided,* however, that Contractor's exercise of such right shall not increase the amount of the termination payment or payments otherwise payable to Contractor under this ARTICLE had Contractor not elected to exercise such right, nor extend the time within which Contractor may elect to take or may request any termination payment provided for in this ARTICLE. Whether Contractor is or is not taking, or has or has not taken amortization deductions under said Section 124A with respect to any of the additional facilities or any part thereof, the termination payment or payments with respect thereto shall be computed as if Contractor had been taking such amortization deductions. In any event, the limit of the Government's obligation to make any termination payment with respect to any group of facilities shall not exceed such percentage of the cost of such group of facilities as may be certified pursuant to Section 124A of the Internal Revenue Code, as amended, less an amount equal to one-sixtieth (1/60th) of such percentage of the cost of such group of facilities as may be certified pursuant to Section 124A of the Internal Revenue Code, as

amended, for each month following the month in which such group of facilities was completed, up to and including the month preceding the month as of which the termination payment or the first portion thereof becomes due and payable.

ARTICLE IX.

CONTRACTOR'S OBLIGATION TO SELL WHILE UNDER OBLIGATION TO MAKE PRODUCTION PAYMENTS.

While Contractor's obligation to make production charge payments to the Government pursuant to ARTICLE VIII continues, Contractor agrees, to the extent that it actually produces aluminum at such additional facilities, to make available aluminum produced at such facilities for sale to the Government, in the manner and subject to the conditions provided in ARTICLE III(a), and to non-integrated users, in the manner and subject to the conditions provided in ARTICLE III(b), at Contractor's lowest published market price at date of delivery, and on Contractor's current standard terms and conditions of sale in effect at time of purchase, provided that Contractor's obligation to sell aluminum to the Government and to non-integrated users during any period pursuant to this ARTICLE IX shall not exceed twenty-five per cent (25%) of the production of the additional facilities for such period.

ARTICLE X.

GOVERNMENT GUARANTEE OF LOANS.

The Government, acting through General Services Administration as an authorized guaranteeing agency under Executive Order No. 10161, dated September 9, 1950, Executive Order No. 10200, dated January 3, 1951, and Executive Order No. 10281, dated August 28, 1951, agrees to guarantee any loans obtained by Contractor to construct the additional facilities to the extent required by the lender concerned, and as determined by the guaranteeing agency after consideration of the recommendations of the appro-

priate Federal Reserve Bank, *provided,* that application for such guarantee is made prior to the date of completion of the additional facilities. If any such loan is guaranteed and remains unpaid, in whole or in part, at the time any termination payment or payments described in ARTICLE VIII above is or are due Contractor from the Government, the Government reserves the right, at its option, to require Contractor to apply any or all of such termination payment or payments to the payment of all or any part of the principal installments of said guaranteed loan in the regular order of maturity.

ARTICLE XI.

SALES PRICE OF ALUMINUM; CONTRACTOR'S RIGHT OF TERMINATION.

(a) The price at which aluminum pig, ingot and billet shall be sold to non-integrated users in accordance with ARTICLE III (b) and ARTICLE IV shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the terms and conditions applicable thereto).

The price at which aluminum pig and ingot shall be sold to the Government in accordance with ARTICLE III(a) and (c) and ARTICLE IV shall be Contractor's lowest published price for the grade involved (including the terms and conditions applicable thereto) in effect at the time of delivery, *provided,* however, that if at the time of delivery the current published market price of either Aluminum Company of America or Reynolds Metals Company is lower than Contractor's published price, the price to the Government shall be the lower of: (a) the weighted average (as defined below) of the lowest current market prices so published of the three present producers averaged during the ninety (90) days preceding the date of delivery; or (b) Contractor's lowest published price in effect at the time of delivery for the corresponding grade of aluminum.

The weighted average shall be computed on the basis of the existing primary aluminum capacities of the three present producers which for the purposes of this clause shall conclusively be

deemed to be Kaiser Aluminum & Chemical Corporation, twenty-five per cent (25%); Aluminum Company of America, forty-five per cent (45%); and Reynolds Metals Company, thirty per cent (30%).

Contractor shall invoice the Government at its said published market price in effect at the time of delivery and grant any credits required by the above formula in Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

(b) In the event that price controls are placed upon aluminum by the Government which result in Contractor's inability to earn a reasonable profit from the operation of the additional facilities and, after reasonable efforts, Contractor is unable to obtain relief from such price controls to the extent that such price controls cause such inability, then Contractor shall have the right to terminate this Contract. Such termination shall become effective thirty (30) days after receipt of written notice thereof delivered by Contractor to the Administrator, and upon such termination the provisions of ARTICLE VIII shall apply. For the purpose of this paragraph (b): (1) in determining Contractor's profit, the amount of accelerated amortization in excess of normal depreciation shall not be included in computing Contractor's cost of production, and (2) it is the understanding of the parties that Contractor's profit existing at the effective date of this Contract is a reasonable profit.

(c) In the event that the price control authorities grant relief to Contractor in accordance with paragraph (b) above, with respect to Contractor's prices on sale to the Government or to non-integrated users, or both, pursuant to this Contract, then the prices authorized by such relief shall apply to such sales under this Contract during the effective period of such relief, and upon the termination of such relief, the price provisions otherwise specified in this Contract again shall govern.

ARTICLE XII.

FORCE MAJEURE.

(a) The time for performance by Contractor of its obligations under the provisions of this Contract relating to the construction of the additional facilities, to the production and delivery of aluminum from such additional facilities, or to the operation of such additional facilities, shall be extended at the option of Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions or cessations occasioned by force majeure (herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of Contractor, including without limitation acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, and priority or allocation requirements or other acts of the Federal Government); *provided,* that within ten (10) days after Contractor determines that in Contractor's judgment a particular force majeure occurrence may result in a major delay in the performance of this Contract, Contractor shall give to the Administrator written notice thereof, together with a statement setting forth the facts evidencing force majeure, and at the conclusion of the duration of each such force majeure, Contractor shall, within ten (10) days thereafter, give to the Government written notice of the termination of such force majeure, and *further provided,* that at the end of each six-month period, the first six-month period to begin with the date of execution of this Contract, Contractor shall give to the Government written notice of the occurrence of each force majeure not reported under the foregoing proviso, together with written notice of the termination of each such force majeure as shall have terminated within said six-month period.

(b) In the event that any occurrence of force majeure resulting from priority or allocation requirements or other acts of the Federal Government prevents the date of completion of the additional aluminum reduction facilities from occurring by or before

January 1, 1954, Contractor may, at any time thereafter, by written notice delivered to the Administrator, elect to proceed with the performance of this Contract as if such date of completion had occurred. In the event of such election, the provisions of this Contract which are expressly dependent upon the occurrence of such date of completion, including without limitation ARTICLE III hereof, shall become effective as if the date of completion of construction had occurred upon the date of receipt of such notice by the Administrator, *provided,* that without affecting the total amount of aluminum which the Government is obligated to buy and Contractor is obligated to sell hereunder, the amount of aluminum which it shall be the duty of the Government to buy and the duty of the Contractor to sell to the Government and to non-integrated users hereunder in each subsequent period specified in and under the conditions of ARTICLE III shall be limited to the actual capacity of the additional aluminum reduction facilities during such period which is specified in the applicable subparagraph of ARTICLE III; and *further provided,* that the provisions of this subparagraph (b) shall not relieve Contractor from its obligations to complete the construction and operation of the additional facilities except during the period or periods when Contractor is prevented from so doing by conditions of force majeure resulting from priority or allocation requirements or other acts of the Federal government.

ARTICLE XIII.

TERMINATION FOR CAUSE.

(a) (1) When Contractor has arranged financing satisfactory to it for the initially estimated cost of constructing the additional facilities, Contractor shall execute a certificate to such effect and shall deliver such certificate to the Administrator. If Contractor does not deliver such a certificate to the Administrator within sixty (60) days after the date of execution of this Contract, either the Government or Contractor, at any time thereafter before such a certificate is delivered to the Administrator, may terminate this

Contract on the terms provided in ARTICLE XIV hereof; *provided,* that if an application for a guarantee of a loan or loans for the construction of the additional facilities shall have been filed with the Administrator before the Government terminates this Contract, neither the Government nor Contractor shall thereafter have any right to terminate this Contract pursuant to the provisions of this subparagraph (1); but any right of the Government or Contractor under this Contract pursuant to the provisions of subparagraphs (2) and (3) shall not thereby be affected.

(2) If Contractor should apply for a Government guarantee of loans pursuant to ARTICLE X hereof and despite due diligence does not obtain such guarantees on terms satisfactory to Contractor, within forty-five (45) days after the date when Contractor applies for such guaranteed loans or after the date of execution of this Contract, whichever date may be later, Contractor may, at any time thereafter before such guaranteed loans are obtained (or the application therefor withdrawn), terminate this Contract on the terms provided in ARTICLE XIV hereof.

(3) If such guaranteed loans are not obtained within ninety (90) days after Contractor applies for such guaranteed loans, then the Government may also, at any time thereafter before such guaranteed loans are obtained (or the application therefor withdrawn), terminate this Contract on the terms provided in ARTICLE XIV hereof.

(b) If Contractor despite due diligence does not obtain all priorities and allocations necessary for the purchase and delivery of equipment, supplies, materials, and services of any nature required for the completion or placing into operation of the additional facilities, and the inability to obtain such priorities and allocations substantially interferes with the completion or placing into operation of the additional facilities for a consecutive period of one hundred eighty (180) days, or such further period as may hereafter be mutually agreed upon, then Contractor may terminate this Contract on the terms provided in ARTICLE XIV hereof.

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ARTICLE XIV.

CONSEQUENCES OF TERMINATION FOR CAUSE.

In the event this Contract is terminated pursuant to ARTICLE XIII, termination shall become effective thirty (30) days after receipt of notice delivered by Contractor to the Administrator, or by the Administrator to Contractor, as the case may be, and upon such termination the following provisions shall apply:

With respect to each contract or commitment theretofore made by Contractor and relating to the additional facilities (including, without limitation, contracts and commitments for utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services), the Government shall reimburse Contractor for all expenditures actually made thereunder up to the date of termination, and either, at the Government's option, (i) require the assignment by Contractor to the Government of such contract or commitment and assume Contractor's obligations thereunder, or (ii) direct Contractor to cancel or settle such contract or commitment and reimburse Contractor for its expenditures in effecting such cancellation and settlement. Contractor shall thereupon, at the request of the Government, transfer and deliver to the Government any or all real and personal property obtained by Contractor as a result of such expenditures and not previously consumed, together with all necessary and useful easements, rights of access, rights of way, and other rights, over, to, across, under, on and about any real property owned by Contractor in the vicinity, which are reasonably required by the Government to remove, complete construction of, operate or maintain the real and personal property so transferred to the Government. Contractor shall be entitled to exclude from the provisions of this ARTICLE all contracts and commitments relating to the additional alumina facilities, or all contracts and commitments relating to the additional bauxite facilities, or both, by delivering written notice of its election to the Administrator, and in such event Contractor shall not be required to transfer or deliver to the Government any real or personal property obtained by Contractor as a

result of expenditures pursuant to such excluded contracts or commitments. It is expressly understood that in the event this Contract is terminated pursuant to ARTICLE XIII(a) hereof, Contractor shall not be entitled to reimbursement for expenditures made by Contractor to acquire and install equipment and materials which have actually been installed as part of the additional alumina facilities or as part of the additional bauxite facilities on or before the effective date of termination, nor shall Contractor be required to assign or transfer to the Government any such materials or equipment, or any contracts or commitments relating thereto.

ARTICLE XV.

GOVERNMENT PURCHASE OPTION.

(a) If (1) this Contract has been terminated pursuant to ARTICLE XI(b), and (2) Contractor is obligated to make production payments to the Government pursuant to ARTICLE VIII, and (3) at the time notice of exercise of the option by the Government hereinafter referred to is given, the additional aluminum reduction facilities, as such facilities are defined in ARTICLE II, including all additions, renewals and improvements thereof and thereto but excluding the additional alumina facilities and the additional bauxite facilities, are and have been substantially idle for a continuous period of at least one (1) year immediately prior to the receipt of such notice (but not including in the computation of such period any time during which conditions of force majeure, as defined in ARTICLE XII, exist) then the Government shall have the option to purchase the additional aluminum reduction facilities from Contractor, exclusive of the additional alumina facilities and the additional bauxite facilities, at a price calculated as set forth below. The Government's option shall be exercised by delivering a written notice to Contractor of its election to exercise such option, stating the date it shall become effective, which date shall not be less than ninety (90) days from the date of its receipt by Contractor. In the

event the Government exercises its option under this ARTICLE XV, the facilities to be transferred to the Government shall be capable of independent operation as aluminum reduction facilities, and for this purpose Contractor agrees to furnish from its adjacent aluminum reduction facilities, at any time when such adjacent facilities are being operated by Contractor, all such services as Contractor's adjacent facilities are capable of furnishing and as are necessary for the independent operation of the additional aluminum reduction facilities to be transferred to the Government, at prevailing market prices for such services but not less than Contractor's cost of furnishing the same, provided that nothing contained herein shall oblige Contractor to furnish alumina or other materials, not produced at such adjacent aluminum reduction facilities, for the purpose of operating said additional aluminum reduction facilities.

(b) If Contractor, in good faith, before the effective date of the option, places the additional aluminum reduction facilities in substantial operation, then the Government's exercise of its option to purchase shall become without effect, but the Government shall thereafter have the option to purchase said facilities if, at a later date, all of the conditions set forth in subparagraph (a) of this ARTICLE recur, subject to the same terms and conditions of subparagraphs (a) and (b) of this ARTICLE XV.

(c) For the purpose of subparagraphs (a) and (b) above, the additional aluminum reduction facilities shall be deemed to be substantially idle unless at least one (1) potline is in operation, and substantial operation of the additional aluminum reduction facilities shall consist of the operation of at least one (1) potline.

(d) The purchase price for the additional aluminum reduction facilities shall be such amount as shall fully reimburse Contractor for the entire cost of the facilities to be purchased after deducting from such cost the profit or adding thereto the loss, as the case may be, resulting from the operation and maintenance of said facilities from the date of their initial operation to the effective date of the exercise of the option.

In computing the purchase price, the following adjustments shall be made and the principles herein stated shall be followed:

1. There shall be deducted from the cost of the additional aluminum reduction facilities the amount of termination payments paid by the Government to Contractor on account of said facilities purchased, less production charges paid by Contractor on account of said facilities.

2. In determining Contractor's profit or loss: (i) Amortization and depreciation of said facilities to be purchased which has actually been taken shall be subtracted from the cost of operations; (ii) The cost of operations shall include all costs of starting up, shutting down and of maintaining said facilities purchased in standby condition, including all costs of cancelling commitments resulting from shutdowns; (iii) The costs of operation shall include a charge for alumina and any other materials furnished by Contractor for operation of said facilities at fair market prices but not less than Contractor's cost of furnishing same (including applicable depreciation and depletion at normal rates) plus a reasonable profit; (iv) There shall be deducted from the profit of each year, or added to the loss of each year of operating said facilities, a pro rata share of the general administrative and selling expenses, and said expenses shall be prorated in the proportion which the net sales and the value of intracompany and intercompany transfers of products produced by the additional aluminum reduction facilities bear to the total net sales and the value of intracompany and intercompany transfers of Contractor and its wholly-owned subsidiaries for such year, provided that in calculating the foregoing proportion with respect to selling expenses, sales to the Government under this Contract shall be excluded; (v) Any intracompany or intercompany sales or transfers shall be deemed to have been made at Contractor's current market price.

3. Contractor's profit or loss in the fabrication of any aluminum produced at the additional aluminum reduction

facilities shall be excluded from all computations of the purchase price of said facilities, it being understood that neither the profit nor loss resulting from the operation of any of the Contractor's facilities, other than those being purchased by the Government pursuant to this option, is to be taken into account in determination of the purchase price.

4. There shall be deducted from such purchase price any tax benefit which may be realized by Contractor as a result of the deduction by Contractor of any net operating loss attributable to the additional aluminum reduction facilities (computed with the deduction of depreciation or amortization pursuant to the provisions of Section 124A of the Internal Revenue Code as actually allowed for the purposes of computing Contractor's Federal income and excess profits tax liabilities) from net income from other operations of the Contractor.

5. It is the intent of the parties that Contractor shall be fully reimbursed for all of its expenditures as hereinabove defined for the construction, acquisition, maintenance, operation and shutdown of the additional aluminum reduction facilities purchased, without profit or loss to Contractor (excluding profit or loss from the production of raw materials and the fabrication of aluminum), as if Contractor had never owned said facilities. If payment of said purchase price does not so reimburse Contractor because of taxes payable as a result of receipt thereof, then the purchase price shall be adjusted so that Contractor is so reimbursed without profit or loss as if Contractor had never owned or operated the additional aluminum reduction facilities.

(e) As promptly as possible after the receipt of notice of the exercise of the option, the parties shall compute and agree upon the purchase price. Upon the effective date of the option, Contractor shall execute and deliver to the Government a deed to all of said property. Contractor shall be obligated to convey only such title to the property as it or its subsidiaries hold at the time it receives the notice from the Government exercising the option,

except that the property shall be conveyed free and clear of all liens and encumbrances for indebtedness incurred by Contractor, together with all necessary and useful easements, rights of access, rights of way, and other rights, over, to, across, on and under any real property owned by Contractor in the vicinity, which are reasonably needed and are requested by the Government to remove, alter, add to, improve, operate, or maintain the real and personal property so transferred. At the same time Contractor shall assign and transfer to the Government such contracts relating to the operation of the plant as it has the right to assign and transfer and upon such assignment and transfer the Government shall assume all obligations for the further performance thereof. The purchase price shall become due and payable upon delivery of the deed of Contractor to the Government.

ARTICLE XVI.

Administrator and General Services Administration.

As used herein, the term "Administrator" means the Administrator of General Services and his successors in function, and the term "General Services Administration" means the General Services Administration, United States Government, and said Administration's successors in function.

ARTICLE XVII.

Performance by Subsidiaries.

All or any part of the obligations of Contractor under this Contract may be performed by and in the name of any wholly-owned domestic subsidiary corporation or corporations of Contractor, and operations outside of the United States, its territories and possessions by domestic or foreign subsidiaries, *provided,* that Contractor guarantees such performance, and in such event at Contractor's request, any payment with respect to such portion of this Contract so performed by the subsidiary shall be made to

such subsidiary. It is further understood that Contractor may conduct its sales of aluminum through its sales subsidiary corporation or corporations and that in such event, for the purposes of this Contract, the published prices of such subsidiary sales corporation or corporations or of Contractor, whichever shall be lower, shall be deemed the published prices of Contractor, and sales by such sales subsidiary corporation or corporations shall be considered the sales of Contractor.

ARTICLE XVIII.

Delivery of Ingot.

It is understood that Contractor presently intends to install equipment at the additional aluminum reduction facilities for the conversion of a portion of the capacity of such facilities from pig to ingot and billet, but does not hereby warrant that such equipment will in fact be installed. Contractor shall be obligated to deliver aluminum ingot and billet to the Government or to non-integrated users during any period to the extent of orders received under the terms of this Contract, but not to exceed the quantity of ingot and billet which Contractor is reasonably able to produce with the equipment installed at the additional aluminum reduction facilities during such period.

ARTICLE XIX.

Points and Terms of Delivery.

Contractor shall deliver aluminum to the Government at the delivery point within the continental United States specified in each order of the Government given pursuant to the terms of this Contract. Such delivery point may be f. o. b. point of origin (or shipping point); f. o. b. Contractor's plant (warehouse or other facility) point of origin (or shipping point); f. o. b. point of origin (or shipping point), freight prepaid; f. o. b. point of origin (or shipping point), freight allowed; f. o. b. destination; or f. o. b. destination within buyer's premises; *provided,* that such delivery

point is in accordance with Contractor's terms and conditions applicable to the contract price in effect at the time of delivery. A delivery point other than in accordance with Contractor's terms and conditions applicable to the contract price in effect at time of delivery may be specified upon the mutual consent of the parties. Contractor shall be responsible for each shipment of aluminum covered by this Contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risk of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from Contractor to the Government.

ARTICLE XX.

INSPECTION.

(a) All aluminum delivered to the Government pursuant to this Contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places including the period of manufacture, and in any event prior to final acceptance.

(b) In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the requirements of this Contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Administrator or his duly authorized representative, by and at the expense of Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the rejection or requirement of replacement is disclosed. If Contractor fails to promptly remove such aluminum when requested by the Administrator or his duly authorized representative, and to proceed promptly with the replacement thereof, the Government at its option may (1) by contract or otherwise replace such aluminum and charge to Contractor the cost occasioned the Government

thereby, or (2) terminate the right of Contractor to make delivery of the amount of aluminum so rejected for default, or (3) accept the aluminum so rejected at an appropriate reduction of the contract price.

(c) If any inspection or test is made by the Government on the premises of Contractor, Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of Contractor, it shall be at the expense of the Government: *Provided,* That in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such a manner as not to unduly delay the work. The Government reserves the right to charge to Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by Contractor. Final acceptance or rejection of the aluminum shall be made as promptly as practicable after delivery, except as otherwise provided in this Contract; but failure to inspect and accept or reject aluminum shall neither relieve Contractor from responsibility for such aluminum as is not in accordance with the contract requirements nor impose liability on the Government therefor.

(d) The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to final acceptance. Except as otherwise provided in this Contract, final acceptance shall be conclusive except as regards latent defects, fraud, or such gross mistakes as amount to fraud.

(e) Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by Contractor shall be kept complete and available to the Government during the performance of this Contract and for such longer period as may be specified elsewhere in this Contract.

ARTICLE XXI.

BUY AMERICAN ACT.

Contractor agrees that there will be delivered under this Contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this ARTICLE XXI as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act (41 U. S. Code 10 a-c), the foregoing provision shall not apply (i) with respect to supplies excepted by the Administrator from the application of that Act, (ii) with respect to supplies for use outside the United States, (iii) with respect to the supplies to be delivered under this Contract, which are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (iv) with respect to such supplies, from which the supplies to be delivered under this Contract are manufactured, as are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, provided that this exception (iv) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

The Administrator hereby determines for the purpose of this Contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XXII.

PRISON LABOR NOT TO BE EMPLOYED.

In connection with the performance of work under this Contract, Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XXIII.

THE EIGHT-HOUR LAW OF 1912.

This Contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912 as amended (40 U. S. Code 324-326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912 as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this Contract, in the employ of Contractor or any subcontractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by Contractor or any subcontractor engaged in the performance of this Contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon Contractor for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more

than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government.

ARTICLE XXIV.

The Walsh-Healey Act.

If this Contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed $10,000 and is otherwise subject to the Walsh-Healey Public Contracts Act as amended (41 U. S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XXV.

No Discrimination in Employment.

In connection with the performance of work under this Contract, Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provisions in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XXVI.

Members of Congress.

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Contract, or to any benefit that may arise therefrom; but this provision shall

not be construed to extend to this Contract if made with a corporation for its general benefit.

ARTICLE XXVII.

SOLICITATION.

Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this Contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by Contractor for the purpose of securing business. For breach or violation of this warranty, the Government shall have the right to annul this Contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXVIII.

PERFORMANCE DURING DISPUTES.

In the event of any dispute arising under this Contract, Contractor shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of this Contract.

ARTICLE XXIX.

IDENTITY OF POTLINES FOR PURPOSE OF DETERMINING PRODUCTION CHARGES AND IDLENESS.

In the event that Contractor has received a termination payment pursuant to ARTICLE VIII hereof or pursuant to ARTICLE VIII of the contract between the parties executed February 2, 1951, as of December 19, 1950, or both, and Contractor subsequently desires to operate any one or more of the potlines constructed as part of the additional aluminum reduction facilities under either such

contract, Contractor shall be entitled to petition the Administrator for the privilege of operating any such potline or potlines and attributing the production therefrom to either of such contracts for the purposes of ARTICLE VIII and ARTICLE XV thereof. Upon receipt of such petition, the Administrator shall give careful and due consideration thereto and shall grant any such petition to the extent that he deems it appropriate and in the interest of the Government to do so.

ARTICLE XXX.

DESCRIPTIVE HEADINGS.

The table of contents and the descriptive headings of the several ARTICLES of this Contract are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

ARTICLE XXXI.

CONTROLLING STATUTE.

This Contract is entered into pursuant to the Defense Production Act of 1950, as amended (Public Law 774, 81st Congress; Public Laws 69 and 96, 82d Congress).

IN WITNESS WHEREOF, the parties hereto have executed this Contract in quadruplicate on this day of December, 1951, as of November 6th, 1951.

UNITED STATES OF AMERICA

By /S/ JESS LARSON

Title *Administrator of General Services*

KAISER ALUMINUM & CHEMICAL CORPORATION

By /S/ CHAD F. CALHOUN

Title *Vice-President*

Attest:

/S/ LLOYD N. CUTLER
Assistant Secretary

AMENDMENT NO. 1

Executed January 4, 1952

TO

CONTRACT NO. GS-OOP(D)-12143

Executed December 7, 1951
as of November 6, 1951

BETWEEN

UNITED STATES OF AMERICA

AND

KAISER ALUMINUM & CHEMICAL CORPORATION

GS-OOP(D)-12143

AMENDMENT NO. 1

Executed January 4, 1952, to Contract No. GS-OOP(D)-12143 executed December 7, 1951, as of November 6, 1951, between the UNITED STATES OF AMERICA and KAISER ALUMINUM & CHEMICAL CORPORATION.

This Amendment No. 1 of Contract between the United States of America (hereinafter called the Government) acting through the Administrator of General Services, and KAISER ALUMINUM & CHEMICAL CORPORATION (hereinafter called Contractor), a corporation existing under the laws of the State of Delaware, amends the contract between the parties executed December 7, 1951, as of November 6, 1951 (Contract No. GS-OOP(D)-12143), by adding at the end thereof a new ARTICLE XXXII, reading as follows:

ARTICLE XXXII

In order to aid the completion of the additional facilities and the production and delivery of the additional production therefrom, and the refinancing of Contractor's obligations under a certain loan agreement dated February 8, 1951, it is hereby agreed that Contractor may assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained by Contractor for such purposes, any termination payment or payments which may become due and payable to Contractor under ARTICLE VIII hereof as the result of termination pursuant to ARTICLE XI(b) hereof. In the event of any such assignment, either Contractor or its assignee may give to the Administrator pursuant to ARTICLE VIII hereof the written notice

of election to receive such termination payment or payments, in which event such termination payment or payments shall be made in accordance with such assignment, and shall, to the extent provided in said Act, as amended, not be subject to reduction or set off. Any such assignment shall not be made to more than one party except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any such loans.

IN WITNESS WHEREOF the parties hereto have executed this Contract in quadruplicate this 4th day of January, 1952.

UNITED STATES OF AMERICA

By [s] JESS LARSON
Title: Administrator of General Services

KAISER ALUMINUM & CHEMICAL CORPORATION

By [s] CHAD F. CALHOUN
Title: Vice-President

[SEAL]

Attest:

[s] LLOYD N. CUTLER
Assistant Secretary

AMENDMENT NO. 1

Executed December 7, 1951
as of November 6, 1951

TO

CONTRACT NO. GS-OOP(D)-12006

Executed February 2, 1951
as of December 19, 1950

BETWEEN

THE UNITED STATES OF AMERICA

AND

KAISER ALUMINUM & CHEMICAL CORPORATION

AMENDMENT NO. 1

to

CONTRACT No. GS-OOP(D)-12006

between

THE UNITED STATES OF AMERICA

and

KAISER ALUMINUM & CHEMICAL CORPORATION

This Amendment No. 1 of Contract, entered into as of the sixth day of November, 1951, by the UNITED STATES OF AMERICA (herein called the Government) acting through the Administrator of General Services, and KAISER ALUMINUM & CHEMICAL CORPORATION (herein called Contractor), a corporation existing under the laws of the State of Delaware, amends the Contract between the parties executed February 2, 1951, as of December 19, 1950 (Contract No. GS-OOP(D)-12006), by adding at the end thereof a new ARTICLE XXX, reading as follows:

ARTICLE XXX

In consideration of Contractor's acceptance of a certain contract between the parties executed December 7, 1951, as of November 6, 1951, the Government agrees that the Government will have no right to exercise, and shall not exercise its privilege of terminating this contract pursuant to ARTICLE VIII hereof at any time when there is in effect a contract or contracts to which the Government or any of its agencies is a party, containing provisions for the importation of aluminum pig, ingot or billet produced in any foreign country, providing for deliveries aggregating more than Ten Thousand (10,000) short tons per calendar year. In computing such aggregate quantity of Ten Thousand (10,000) short tons per calendar year, there shall be excluded any importation of aluminum (other than pursuant to contracts for the importation of

aluminum produced in Canada, or pursuant to contracts with Aluminium, Limited, Aluminum Company of America, Reynolds Metals Company, or any affiliate or successor of any such company) pursuant to a contract or contracts entered into pursuant to the Economic Cooperation Act of 1948, as amended, and any importation of aluminum pursuant to contracts and amendments thereof entered into before November 6, 1951.

IN WITNESS WHEREOF, the parties hereto have executed this Contract in quadruplicate this 7th day of December, 1951, as of the 6th day of November, 1951.

UNITED STATES OF AMERICA

By /S/ JESS LARSON

Title *Administrator of General Services*

KAISER ALUMINUM & CHEMICAL CORPORATION

By /S/ CHAD F. CALHOUN

Title *Vice-President*

Attest:

/S/ LLOYD N. CUTLER
Assistant Secretary

AMENDMENT NO. 2

Executed January 4, 1952

TO

CONTRACT NO. GS-OOP(D)-12006

Executed February 2, 1951
as of December 19, 1950

BETWEEN

UNITED STATES OF AMERICA

AND

KAISER ALUMINUM & CHEMICAL CORPORATION

GS-OOP(D)-12006

AMENDMENT NO. 2

Executed January 4, 1952, to Contract No. GS-OOP(D)-12006 executed February 2, 1951, as of December 19, 1950, between the UNITED STATES OF AMERICA and KAISER ALUMINUM & CHEMICAL CORPORATION.

This Amendment No. 2 of Contract between the United States of America (hereinafter called the Government) acting through the Administrator of General Services, and KAISER ALUMINUM & CHEMICAL CORPORATION (hereinafter called Contractor), a corporation existing under the laws of the State of Delaware, further amends the contract between the parties executed February 2, 1951, as of December 19, 1950 (Contract No. GS-OOP(D)-12006), as amended, by adding at the end thereof a new ARTICLE XXXI, reading as follows:

ARTICLE XXXI

In order to aid the completion of the additional facilities and the production and delivery of the additional production therefrom, and the refinancing of Contractor's obligations under a certain loan agreement dated February 8, 1951, it is hereby agreed that Contractor may assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained by Contractor for such purposes, any termination payment or payments which may become due and payable to Contractor under ARTICLE VIII hereof as the result of termination pursuant to ARTICLE VIII or ARTICLE XI(b) hereof. In the event of any such assignment, either Contractor or its assignee may give to the

Administrator pursuant to ARTICLE VIII hereof the written notice of election to receive such termination payment or payments, in which event such termination payment or payments shall be made in accordance with such assignment, and shall, to the extent provided in said Act, as amended, not be subject to reduction or set off. Any such assignment shall not be made to more than one party except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any such loans.

IN WITNESS WHEREOF the parties hereto have executed this Contract in quadruplicate this 4th day of January, 1952.

UNITED STATES OF AMERICA

By [s] JESS LARSON
Title: Administrator of General Services

KAISER ALUMINUM & CHEMICAL CORPORATION

By [s] CHAD F. CALHOUN
Title: Vice-President

[SEAL]

Attest:

[s] LLOYD N. CUTLER
Assistant Secretary

Contract

BETWEEN

UNITED STATES OF AMERICA

AND

KAISER ALUMINUM & CHEMICAL CORPORATION

Executed June 23, 1954

As of October 31, 1951

CONTRACT

THIS CONTRACT, entered into as of the 31st day of October, 1951, by the UNITED STATES OF AMERICA, herein called the Government, acting through the Administrator of General Services, herein called the Administrator, and KAISER ALUMINUM & CHEMICAL CORPORATION, a corporation existing under the laws of the State of Delaware, herein called Contractor.

WITNESSETH:

ARTICLE I

SALE AND PURCHASE OF ALUMINUM

Subject to the terms and conditions hereof, Contractor agrees to produce and to sell One Hundred Thousand (100,000) short tons of Two Thousand (2,000) pounds each, of primary aluminum pig, which primary aluminum, herein called the "additional production," shall be of minimum grade of ninety-nine per cent (99%) aluminum. Contractor will produce such aluminum from facilities which Contractor agrees hereafter to construct, herein called the "additional facilities." Such production and sale shall commence upon the date of the completion of construction of the additional facilities, as defined hereinafter, and shall reach and continue at a rate of approximately Twenty-Thousand (20,000) short tons per year as soon as possible after said completion of construction and shall be completed within a period of five (5) years from the date when the additional facilities have reached production at their designed capacity of approximately Twenty Thousand (20,000) short tons per year, unless otherwise terminated by the Government in accordance with the provisions of this Contract. The times specified in the preceding sentence shall be subject to occurrences of force majeure as provided in ARTICLE VIII hereof. Contractor hereby certifies that the additional facilities first reached production at their designed capacity of ap-

proximately Twenty-Thousand (20,000) short tons per year on March 1, 1953.

ARTICLE II

Construction of Additional Facilities

Contractor shall proceed without delay to acquire and construct the additional facilities for the production of said aluminum. The "additional facilities" shall consist generally of an additional pot line having a capacity of approximately Twenty Thousand (20,000) short tons of aluminum per year to be located in Contractor's aluminum reduction plant at Spokane (Mead), Washington, together with such auxiliary facilities as Contractor may consider necessary for the additional production. Contractor certifies to the Government that the date of completion of construction of the additional facilities was July 10, 1952.

ARTICLE III

Disposition of Production from Additional Facilities

Subject to priority delivery as may be required pursuant to law, the additional production shall be disposed of as follows:

(a) (1) The Government may require Contractor to sell to it, at the price provided in Article IV (b) hereof, all or any of the additional production for the six-month period beginning April 1, 1953 and for each subsequent six-month period of the contract. (The Government has waived its right to purchase the additional production produced through March 31, 1953.) At least ninety (90) days prior to the beginning of each period, the Government shall give notice in writing to Contractor of the amount of aluminum it elects to purchase from the production of the additional facilities for such period, and such notice shall be a firm order for the purchase of the

quantities stated. If no notice is given within the times herein provided, Contractor shall be under no obligation to deliver aluminum to the Government during the relevant six-month period.

(2) The Government shall in each notice specify the amount of aluminum it desires to have comply with the latest National Stock Pile Material Purchase Specification in effect on the effective date of this Contract, and thereafter Contractor shall deliver such quantities in accordance with such specification, provided that the Government may not order more than Three Thousand Three Hundred and Thirty-Four (3,334) short tons of aluminum meeting the Stock Pile Specification in any six-month period, or proportionate amounts in longer or shorter periods.

(3) It is the intent of the parties that the Administrator will exercise the Government's right to purchase aluminum under this ARTICLE III(a) so as to purchase approximately equal percentages of the additional production produced by contractor, by Aluminum Company of America and by Reynolds Metals Company, respectively, pursuant to aluminum supply contracts in effect at the times of such purchases, under the Government's entire program of expanded aluminum production, and the Administrator agrees that, insofar as practicable, the Government will not purchase from Contractor under this ARTICLE III(a) quantities which are proportionately larger, in relation to Contractor's portion of the entire program of expanded aluminum production, then under contract with the Government, than the quantities being purchased from such other companies; *provided,* that the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this subparagraph.

(b)(1) The quantity, if any, by which the Government's purchases during any six-month period fall short of two-thirds of the reasonably estimated additional production for such period, shall be offered and made available by Contractor for sale to non-integrated users in pig, ingot or billets at the price provided for in ARTICLE IV(a) hereof. As used in this Contract, the term "non-integrated user" shall mean any manufac-

turer, fabricator, finisher or producer in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing such aluminum for his own manufacturing, fabricating, finishing, or producing operations. Said offer shall be made for at least thirty (30) days, and shall be made by publishing a notice in "The American Metal Market" or by such other method as Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during the period of thirty (30) days from the date of the first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least sixty (60) days prior to the beginning of each period.

It is recognized that because of allocation controls Contractor was relieved of the duty to publish the above notice or notices and to make the above offer or offers to non-integrated users of aluminum produced through June 30, 1953, pursuant to a letter agreement dated July 31, 1952, accepted August 1, 1952, and a further letter agreement dated January 23, 1953, accepted January 29, 1953; and that Contractor's duty to make such offer for the period ending September 30, 1953, is subject to the provisions of a letter agreement dated and accepted June 15, 1953; copies of said letter agreements being attached to this Contract as Exhibits A, B, and C.

All orders shall be subject to Contractor's acceptance, to Contractor's approval of the credit of the purchaser and to Contractor's standard terms and condition of sale then in effect. Subject to the provisions of the foregoing sentence, Contractor shall accept on a first-come first-served basis sufficient orders from non-integrated users to equal the quantity thus offered for sale, as above provided, but thereafter shall have no obligation to accept any further orders from non-integrated users for the period. Nothing herein shall prohibit Contractor, whenever the orders exceed the quantity offered for sale, from reducing the quantity of any order which it considers disproportionately large in relation to the other orders

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it has received from other non-integrated users for such period. If, pursuant to the terms of this Article, the amount of aluminum which Contractor is obligated to offer for sale to such non-integrated users is zero, then Contractor need not publish the notice or make the offer to non-integrated users referred to above.

It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(2) It is recognized that Contractor has made and intends in the future to make contracts with such of its customers who are non-integrated users for the delivery of aluminum pig, ingots and billets which may be produced from the additional facilities. The maximum quantity of aluminum which Contractor may be obligated to deliver pursuant to such commitments for any applicable period may be deducted from the quantity which Contractor is obligated to make available to other non-integrated users for such period under this subparagraph (b), provided that Contractor may not so deduct any quantities to be delivered pursuant to any contract which requires Contractor to deliver in excess of Five Hundred Thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Administrator. The Administrator shall be deemed to have approved any such contract unless he disapproves the same and so notifies Contractor in writing within fifteen (15) days after written notice has been received by him of the terms of such contract. Any quantity so deducted by Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such

period, shall be added to the quantity which Contractor is obligated to offer to non-integrated users during the subsequent period.

(3) If, after receiving the notice from the Government of the amount of aluminum it elects to purchase as provided in subparagraph (a) hereof, Contractor finds that the quantity ordered by the Government for any such period is such that it may be impossible for Contractor to fulfill its prior commitments to such other customers as are non-integrated users, Contractor may advise the Administrator of such fact. The Administrator shall thereupon review the quantity ordered by the Government and if under all of the circumstances the Administrator considers it advisable, he may reduce the quantity ordered by the Government.

(c) Any quantity of the additional production not disposed of in accordance with this ARTICLE, and not otherwise sold or utilized by Contractor, may be tendered to the Government, in the form of pig only, during the period beginning July 10, 1952, and ending March 31, 1953, and thereafter during each consecutive twelve-month period, the first such period commencing April 1, 1953. Such tender or tenders shall be made during the first ten (10) days of any calendar month of such period and during the first ten (10) days following the expiration of such period, and all such tenders shall be deemed applicable to such period. The Government shall purchase the amount so tendered at the price specified in ARTICLE IV(b). The Government shall not be required to buy under this subparagraph (c) for any period specified in this subparagraph (c) more than the actual output of the additional aluminum reduction facilities during such period, less the quantity of such additional production disposed of in accordance with this ARTICLE III or otherwise sold or utilized by Contractor.

(d) In no event, except as provided in ARTICLE VI, shall the Government be obligated to order or to purchase, or the Contractor be obligated to accept orders from either the

Government or non-integrated users, for an amount of aluminum which, added to the prior production and sale or utilization by Contractor of aluminum from the additional facilities after the date of completion of such facilities, exceeds One Hundred Thousand (100,000) short tons.

ARTICLE IV

Sales Price of Aluminum

(a) The price at which aluminum pig, ingot and billets shall be sold to non-integrated users in accordance with Article III(b) shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the standard terms and conditions applicable thereto).

(b) The price at which aluminum, pig, or ingot shall be sold to the Government in accordance with Article III(a) and III(c) shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the standard terms and conditions applicable thereto), *provided, however,* that if at the time of delivery the current published market price (including the standard terms and conditions applicable thereto) of either Aluminum Company of America or Reynolds Metals Company is lower than Contractor's published price, the price to the Government shall be the lower of: (a) the weighted average (as defined below) of the lowest current market prices so published of the three present producers averaged during the ninety (90) days preceding the date of delivery; or (b) Contractor's lowest published price in effect at the time of delivery for the corresponding grade, form, size and quantity of aluminum.

The weighted average shall be computed on the basis of the existing primary aluminum capacities of the three present producers which for the purposes of this clause shall conclusively be deemed to be Kaiser Aluminum & Chemical Corporation, twenty-five percent (25%); Aluminum Company of America, forty-five per cent (45%); and Reynolds Metals Company, thirty per cent (30%).

Contractor shall invoice the Government at its said published market price in effect at the time of delivery and grant any credits required by the above formula in Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

ARTICLE V

Relationship of Additional to Existing Facilities

(a) It is the intention of this Contract that the Government, by agreeing to purchase aluminum from the additional facilities as herein provided, guarantees the disposition of the entire output of the additional facilities to the extent of the One Hundred Thousand (100,000) ton quantity specified in Article I, subject to its right of termination as provided in Article IX. In this connection, it is recognized that Contractor now has other aluminum reduction facilities in operation and in the course of construction and may in the future acquire further aluminum reduction facilities other than those to be constructed under this Contract. It is understood that, except as to orders from the Government expressly placed pursuant to this Contract for aluminum to be produced at the additional facilities to be constructed under this Contract, Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such other facilities, before disposing of or utilizing aluminum from the additional facilities, and that, in accordance with Article III(c), the Government will purchase from Contractor all of the production of the additional facilities not otherwise disposed of or utilized by Contractor. The Government does not, by this Contract, guarantee or agree to purchase production from other facilities.

(b) Without affecting the rights and duties of the parties as set forth in the preceding subparagraphs, deliveries to the Government under this Contract may, at Contractor's option, be made by substituting aluminum produced from other facilities for aluminum actually produced at the additional facilities. In

such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

(c) In the event that it becomes an economic burden for Contractor to continue to operate some or all of the additional facilities, as well as its existing facilities, Contractor may petition the Administrator, setting forth all of the facts and asking for the privilege of closing down all or any portion of the additional facilities that it considers uneconomic and of delivering from other facilities the aluminum to be delivered to the Government or non-integrated users hereunder. Upon receipt of such petition, the Administrator shall give careful and due consideration to such request and grant such relief, if any, as he considers equitable to Contractor, on such terms and conditions as he may determine, including, but not by way of limitation, a requirement that Contractor continue to make aluminum available to non-integrated users in the quantities and under the terms and conditions set forth in ARTICLE III(b).

ARTICLE VI

SALE OF ALUMINUM TO NON-INTEGRATED USERS FOR FIFTEEN YEARS

As an inducement to the Government to enter into this Contract, and as part of the consideration of this Contract, Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in Article I, and provided that the Government does not exercise its right of termination, pursuant to ARTICLE IX hereof, Contractor will each year make available for sale to non-integrated users, under credit conditions as to each purchaser satisfactory to Contractor, at Contractor's lowest published market price for the grade of aluminum involved as of date of delivery, and on Contractor's current standard terms and conditions of sale at time of purchase, a quantity of aluminum equal to Twenty-Five (25) per cent of the annual capacity of the additional facilities, *provided, however,* that the obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of

Contractor's production year, make firm purchase commitments with Contractor for specific quantities for such production year. Said aluminum will be offered on a first-come first-served basis, except that in the event Contractor for any year receives orders in excess of such Twenty-Five (25) per cent, nothing herein shall prohibit Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this ARTICLE. Nothing contained in this ARTICLE shall require Contractor to operate the additional facilities, but Contractor shall be obligated to make available a quantity equal to twenty-five (25) per cent of the capacity of such additional facilities whether or not said facilities are actually operated. It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VII

PAYMENT FOR ALUMINUM DELIVERED TO THE GOVERNMENT

Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

ARTICLE VIII

FORCE MAJEURE

The time for performance by Contractor of its obligations under the provisions of this Contract relating to the construc-

tion of the additional facilities, to the production and delivery of aluminum from such additional facilities, or to the operation of such additional facilities, shall be extended at the option of Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions or cessations occasioned by force majeure (herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of Contractor, including without limitation, acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, priority or allocation requirements or other acts of the Federal Government and inability of Contractor to obtain at any time sufficient power under reasonable conditions and at reasonable rates to operate the additional facilities at capacity, over and above any power obtained to operate Contractor's existing aluminum reduction facilities in the Pacific Northwest at capacity, it being recognized for purposes of this ARTICLE VIII that the additional facilities can only be operated economically with power supplied by Bonneville Power Administration or by other sources at rates equivalent to Bonneville Power Administration's then prevailing rates to industrial users for hydro-electric power, and that at the present time such power may be available only on an interruptible basis); *provided,* that within ten (10) days after Contractor determines that in Contractor's judgment a particular force majeure occurrence may result in a major delay in the performance of this Contract, Contractor shall give to the Administrator written notice thereof, together with a statement setting forth the facts evidencing force majeure, and at the conclusion of the duration of each such force majeure, Contractor shall, within ten (10) days thereafter, give to the Government written notice of the termination of such force majeure, and *further provided* that at the end of each six-month period, the first six-month period to begin with the date of execution of this Contract, Contractor shall give to the Government written notice of the occurrence of each force majeure not reported under the foregoing proviso, together with written notice of the termination of each such force majeure as shall have terminated within such six-month period.

It is understood that to such extent as may be mutually satisfactory to the parties and agreed in advance, Contractor may, during periods of power shortage, shut down or reduce operations at its existing Mead potlines or at its Tacoma, Washington reduction plant, in lieu of shutting down or reducing operations at the additional facilities covered by this contract, and that in such event production from the additional facilities covered by this contract may, if so agreed, to the extent of the reduction in output at Contractor's other Mead or Tacoma facilities resulting from such shutdown or reduction of operations, be deemed to be production from such other Mead or Tacoma facilities.

ARTICLE IX

TERMINATION

The Government shall have the right to terminate this contract for its convenience effective at any time when or after the additional facilities have, subsequent to the date of completion of construction, produced Ninety Thousand (90,000) short tons of aluminum. Said right of the Government to terminate this Contract may be exercised at any time after the completion of construction of the additional facilities by delivery to Contractor of a notice that said termination shall become effective upon the production of a specified number of tons (not less than Ninety Thousand (90,000)) from the additional facilities. Upon delivery of said notice to Contractor, this Contract shall thereafter terminate when the specified number of tons shall have been produced; *provided* that in no event shall this Contract terminate less than ninety (90) days after delivery of said notice to Contractor. If the Government has not previously delivered said notice of termination to Contractor, Contractor shall give six (6) months' notice to the Government of the estimated date as of which Ninety Thousand (90,000) tons shall have been produced from the additional facilities after the completion of construction.

The termination of this Contract as provided in this Article shall not have the effect of cancelling or terminating any order

placed by the Government for aluminum pursuant to ARTICLE III(a) hereof or any tenders made by Contractor to the Government pursuant to ARTICLE III(c) before the effective date of termination, to the extent that production of such aluminum has been effected prior to such effective date of termination.

ARTICLE X

ADMINISTRATOR AND GENERAL SERVICES ADMINISTRATION

As used herein, the term "Administrator" means the Administrator of General Services and his successors in function, and the term "General Services Administration" means the General Services Administration, United States Government, and said Administration's successors in function.

ARTICLE XI

PERFORMANCE BY SUBSIDIARIES

All or any part of the obligations of Contractor under this Contract may be performed by and in the name of any wholly-owned domestic subsidiary corporation or corporations of Contractor, and operations outside of the United States, its territories and possessions by domestic or foreign subsidiaries, *provided,* that Contractor guarantees such performance, and in such event at Contractor's request, any payment with respect to such portion of this Contract so performed by the subsidiary shall be made to such subsidiary. It is further understood that Contractor may conduct its sales of aluminum through its sales subsidiary corporation or corporations and that in such event, for the purposes of this Contract, the published prices of such subsidiary sales corporation or corporations or of Contractor, whichever shall be lower, shall be deemed the published prices of Contractor, and sales by such sales subsidiary corporation or corporations shall be considered the sales of Contractor.

ARTICLE XII

Points and Terms of Delivery

Contractor shall deliver aluminum to the Government at the delivery point within the continental United States specified in each order of the Government given pursuant to the terms of this Contract. Such delivery point may be f. o. b. point of origin (or shipping point); f. o. b. Contractor's plant (warehouse or other facility) point of origin (or shipping point); f. o. b. point of origin (or shipping point), freight prepaid; f. o. b. point of origin (or shipping point), freight allowed; f. o. b. destination; or f. o. b. destination within buyer's premises; *provided,* that such delivery point is in accordance with Contractor's standard terms and conditions applicable to the contract price in effect at the time of delivery. A delivery point other than in accordance with Contractor's standard terms and conditions applicable to the contract price in effect at time of delivery may be specified upon the mutual consent of the parties. Contractor shall be responsible for each shipment of aluminum covered by this Contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risk of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from Contractor to the Government.

ARTICLE XIII

Inspection

(a) All aluminum delivered to the Government pursuant to this Contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places including the period of manufacture, and in any event prior to final acceptance.

(b) In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the require-

ments of this Contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Administrator or his duly authorized representative, by and at the expense of Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the rejection or requirement of replacement is disclosed. If Contractor fails to promptly remove such aluminum when requested by the Administrator or his duly authorized representative, and to proceed promptly with the replacement thereof, the Government at its option may (1) by contract or otherwise replace such aluminum and charge to Contractor the cost occasioned the Government thereby, or (2) terminate the right of Contractor to make delivery of the amount of aluminum so rejected for default, or (3) accept the aluminum so rejected at an appropriate reduction of the contract price.

(c) If any inspection or test is made by the Government on the premises of Contractor, Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of Contractor, it shall be at the expense of the Government, *provided*, that in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such a manner as not to unduly delay the work. The Government reserves the right to charge to Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by Contractor. Final acceptance or rejection of the aluminum shall be made within thirty (30) days after delivery; but failure to inspect and accept or reject aluminum shall neither relieve Contractor from responsibility for such aluminum as is not in accordance with the contract requirements nor impose liability on the Government therefor.

(d) The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to final acceptance. Except as otherwise provided in this Contract, final acceptance shall be conclusive except as regards latent defects, fraud, or such gross mistakes as amount to fraud.

(e) Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by Contractor shall be kept, complete and available to the Government during the performance of this Contract and for three (3) years thereafter.

ARTICLE XIV

Buy American Act

Contractor agrees that there will be delivered under this Contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this Article XIV as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act (41 U. S. Code 10 a-c), the foregoing provision shall not apply (i) with respect to supplies excepted by the Administrator from the application of that Act, (ii) with respect to supplies for use outside the United States, (iii) with respect to the supplies to be delivered under this Contract, which are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (iv) with respect to such supplies, from which the supplies to be delivered under this Contract are manufactured, as are of a class or kind determined by the Administrator or his duly authorized repre-

sentative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, *provided,* that this exception (iv) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

The Administrator hereby determines for the purpose of this Contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XV

Prison Labor Not To Be Employed

In connection with the performance of work under this Contract, Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XVI

The Eight-Hour Law of 1912

This Contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912 as amended (40 U. S. Code 324-326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912 as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this Contract, in the employ of Contractor or any sub-contractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition

that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by Contractor or any subcontractor engaged in the performance of this Contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon Contractor for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government.

ARTICLE XVII

The Walsh-Healey Act

If this Contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed $10,000 and is otherwise subject to the Walsh-Healey Public Contracts Act as amended (41 U. S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XVIII

No Discrimination in Employment

In connection with the performance of work under this Contract, Contractor agrees not to discriminate against any employee

or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provisions in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XIX

Members of Congress

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Contract, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this Contract if made with a corporation for its general benefit.

ARTICLE XX

Solicitation

Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this Contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by Contractor for the purpose of securing business. For breach or violation of this warranty, the Government shall have the right to annul this Contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXI

Performance During Disputes

In the event of any dispute arising under this Contract, Contractor shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of this Contract.

ARTICLE XXII

DESCRIPTIVE HEADINGS

The Table of Contents and the descriptive headings of the several ARTICLES of this Contract are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

ARTICLE XXIII

CONTROLLING STATUTE

This Contract is entered into pursuant to the Defense Production Act of 1950, as amended (Public Law 774, 81st Congress; Public Laws 69, 96 and 429, 82d Congress).

IN WITNESS WHEREOF, the parties hereto have executed this Contract in quadruplicate this 23rd day of June, 1954, as of October 31, 1951.

UNITED STATES OF AMERICA

By /s/ A. J. WALSH

KAISER ALUMINUM & CHEMICAL CORPORATION

By /s/ CHAD F. CALHOUN
Vice-President

[SEAL]

Witness:

/s/ LLOYD N. CUTLER
Assistant Secretary

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EXHIBIT A

KAISER ALUMINUM & CHEMICAL CORPORATION
1625 Eye Street N. W.
Washington 6, D. C.

July 31, 1952

Mr. Irving Gumbel
Assistant Administrator
General Services Administration
Washington 25, D. C.

Dear Mr. Gumbel:

For some time we have been discussing with you and with Mr. Byron Harding some minor changes in the Chalmette No. 1 supply contract and in the letter supply contracts covering the expansion of our Mead and Tacoma plants. On July 22nd, we submitted to Mr. Harding draft letter agreements incorporating these changes. Because of the pressure of more urgent duties, it has not yet been possible for Mr. Harding to complete his review of these drafts.

Meanwhile, some of the situations which the proposed amendments were designed to anticipate have already occurred, and others are about to occur in the very near future. For example, the expanded facilities at our Mead plant have already started production, requiring the taking of certain steps in the event that this contract is changed in the manner described below.

Accordingly, pending further action by Mr. Harding on the drafts submitted to him, we would appreciate it if you would confirm that General Services Administration and Kaiser Aluminum

& Chemical Corporation have agreed in principle on amendments of the above contracts which would have the following effects:

1. Provide that the six-month periods at Chalmette, Mead and Tacoma will begin on April 1 and October 1 of each year, with the first period running from the date of completion of construction to the following April 1 or October 1, unless this period is less than three months in which case the first period will run an additional six months. Since the periods under Chalmette Contract No. 2 are already conformed to whatever the periods may be under Chalmette Contract No. 1, no amendment of Chalmette Contract No. 2 is required.

2. Provide that the obligation to offer to non-integrated users for the period ending March 31, 1953 would be waived at all three plants, unless the Government removes allocation controls on aluminum before that date, in which case an offer would be made on reasonable notice for the remainder of the period.

3. Convert the Mead and Tacoma contracts to a "put-and-take" basis, eliminating the advance payment.

4. Waive the Government's right to notice before the new facilities at Mead and Tacoma are completed, as well as the Government's right to purchase metal produced at these plants through March 31, 1953. The waiver shall become inoperative effective one month after the date of termination or suspension of controls.

It is, of course, understood that within the spirit of this agreement in principle, both parties are free to propose necessary changes in the proposed draft amendments so as to carry out the intent of the parties.

Can you please indicate your agreement with the foregoing by signing and returning the enclosed copy of this letter.

Sincerely,

KAISER ALUMINUM & CHEMICAL CORPORATION

By /s/ DONALD BROWNE
Donald Browne
Vice President and Treasurer

Accepted Aug. 1st, 1952

GENERAL SERVICES ADMINISTRATION

By /s/ IRVING GUMBEL
Irving Gumbel
Assistant Administrator

DB/hj

EXHIBIT B

KAISER ALUMINUM & CHEMICAL CORPORATION
1625 Eye Street N. W.
Washington 6, D. C.

Mr. Irving Gumbel **January 23, 1953**
Assistant Administrator
General Services Administration
Washington 25, D. C.

Dear Mr. Gumbel:

Please refer (1) to the Contracts No. GS-OOP(D)-12006, 12143, 12192 and 12213 between the Government and Kaiser Aluminum & Chemical Corporation, covering the production of our Chalmette, Louisiana plant (Step 1 and Step 2) and of the expanded facilities at our Tacoma, Washington and Mead, Washington plants, and (2) to the letter agreement between us dated July 31, 1952, accepted by the Government August 1, 1952.

Under these supply contracts and the above mentioned letter agreement, we are required to publish, beginning January 31, 1953, notices of offers to sell to non-integrated users aluminum to be produced during the period April 1—September 30, 1953 at the facilities covered by Contracts No. GS-OOP(D)-12006 (Chalmette Step 1), 12192 (Tacoma) and 12213 (Mead). In addition, we shall be required to publish a notice offering aluminum to be produced under Contract No. GS-OOP(D)-12143 (Chalmette Step 2) from April 1, 1953 through the date of completion of the additional facilities.

By your letter of February 5, 1952, the Government waived the requirement that we publish a notice of offer to non-integrated users of production under Contract No. GS-OOP(D)-12006 before the date of completion of the facilities. Similarly, by our letter agreement of July 31, 1952, accepted August 1, 1952, the Government agreed that the obligation to make such offer would be waived at all of our plants for the period ending March 31, 1953, unless the Government removed allocation controls on aluminum before that date.

These waivers were granted because offers to non-integrated users during the period when allocation controls were in effect would not only have been ineffective, in the sense that the company could not honor any of the orders made pursuant to those offers in the face of conflicting allocation directives, but also because such offers would have been confusing to purchasers of aluminum and would prejudice the smooth functioning of the allocation program. Since those same considerations will apply with equal force in the event that allocation controls on aluminum continue in effect beyond March 31, 1953, we propose that we be relieved of the duty to make offers to non-integrated users of aluminum produced under any of the four supply contracts until such time as allocation controls on aluminum pig and ingot are removed. Upon the expiration of controls, we shall publish the required notices beginning fifteen days after the date of termination of controls, said notices to cover aluminum pig and ingot to be produced beginning thirty days after the termination of such controls.

It is understood that if you agree to this proposal it will be incorporated in suitable amendments to the Chalmette No. 1 and Chalmette No. 2 contracts, and in the formal supply contracts covering production from the additional facilities at our Mead and Tacoma plants.

Would you please indicate your agreement with the foregoing by signing and returning the enclosed copy of this letter.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORPORATION

By /s/ CHAD F. CALHOUN
Chad F. Calhoun
Vice President

ACCEPTED: Jan 29, 1953.

GENERAL SERVICES ADMINISTRATION

By /s/ JESS LARSON
Administrator of General Services

EXHIBIT C

GENERAL SERVICES ADMINISTRATION

Emergency Procurement Service

Washington 25, D. C.
June 15, 1953

Kaiser Aluminum & Chemical Corporation
1625 Eye Street, N. W.
Washington, D. C.

Gentlemen:

Please refer to the following contracts between GSA and Kaiser Aluminum & Chemical Corporation:

(A) GS-OOP(D)-12006, as amended (Chalmette Step I).
(B) GS-OOP(D)-12143, as amended (Chalmette Step II).
(C) GS-OOP(D)-12213, as amended (Mead 8th Line).
(D) GS-OOP(D)-12192, as amended (Tacoma Expansion).
(E) GS-OOP(D)-12254, as amended (Chalmette Speed Up).

During the period of allocation controls on aluminum the Government waived the obligation of the contractors to make offers of primary aluminum to non-integrated users as provided in the first four contracts listed above. Civilian allocation controls on aluminum are now scheduled to terminate on June 30, 1953.

The Government and the contractors recently reached certain understandings with respect to the procedures to be followed for purchases by the Government and by non-integrated users of primary aluminum produced at the new facilities during the period July 1, 1953, through September 30, 1953. This letter is intended to confirm our agreement on such procedures for that period.

Calculations as to the quantity of primary aluminum to be made available to non-integrated users out of production for the

period July 1, through September 30, 1953, under the above-mentioned contracts shall be made on and in accordance with the provisions of the Report Form which is attached hereto as Exhibit "A". The computations in your report shall include the production under Contract GS-OOP(D)-12254, the Chalmette Speed Up Contract.

The above-mentioned report submitted by you today indicates that the quantity of primary aluminum contracted to be sold by you to non-integrated users from the third quarter, 1953 production, equals the amount required to be sold to non-integrated users under the provisions of the above-mentioned contracts. You are, therefore, relieved of any duty to offer any such production to non-integrated users by public advertisement, provided, of course, that the figures included in the report are accurate.

All primary aluminum purchased from your company by the Government for the national stock pile under priority and allocation orders for the third calendar quarter of 1953 shall be deemed to be metal produced under Contract GS-OOP(D)-12254, as amended (Chalmette Speed Up), up to the total production under such contract during said period, and any remainder so purchased by the Government shall be deemed to be metal produced under one or more of the other contracts mentioned above.

I hope that we may very shortly give further consideration to procedures for the handling of offers to non-integrated users and purchases by the Government under the referenced contracts with respect to aluminum to be produced subsequent to September 30, 1953.

If you are in agreement with the foregoing, please sign and return to me the original and one copy of this letter.

Very truly yours,

/s/ A J WALSH
A. J. Walsh
Commissioner

AGREED June 15, 1953

KAISER ALUMINUM & CHEMICAL CORPORATION

BY /s/ CHAD F. CALHOUN

REPORT ON ALUMINUM AVAILABLE FOR NON-INTEGRATED USERS

Company Reporting .....Period.....to.....

POUNDS

1. Total estimated production from all new supply contract facilities during period (including all metal produced from new facilities covered by Government purchase contracts, premium price or otherwise)

   (List amount for each contract separately)

2. Percentage of company's total estimated production during period represented by estimated production from new facilities (%)

3. Estimated quantity of all priority and allocation orders (including CMP carry-over) which company will be required to deliver during period under Order M-5A etc. (including orders for semi-fabricated and primary products but excluding orders for primary deducted under Items 7 and and 9 below, and excluding orders for secondary) all in equivalent pounds of aluminum pig lbs.

4. Deduct percentage (Item 2 above) of priority and allocation orders (Item 3 above) allocable to new facilities

5. Remainder subject to provisions of Article III(a) and (b) of supply contracts

6. 66⅔% of Item 5

	POUNDS
7. Deduct Government purchases for period under supply contracts (except purchases for resale under Chalmette Speed Up, Rockdale Speed Up and Longview contracts), and stockpile directives based on production from new facilities	
8. Remainder available for non-integrated users	
9. Deduct estimated quantity of pig, ingot and billet covered by contracts with customers who are non-integrated users	
10. Remainder to be offered to non-integrated users by public advertisement	
11. Adjustments of estimates for second preceding period:	
(a) Adjustment of production:	
(1) Total estimated production during second preceding period (Item 1 of report for second preceding period)	
(2) Actual production during second preceding period	
(3) Difference between estimated and actual production	
(4) 66⅔% of Item 11(a)(3)	
(b) Adjustment of priority orders:	
(1) Estimated quantity of priority and allocation orders for second preceding period allocable to new facilities (Item 4 of report for second preceding period)	

	POUNDS
(2) Deduct actual quantity of priority and allocation deliveries for second preceding period allocable to new facilities	
(3) Difference between estimated and actual quantity	
(4) 66⅔% of Item 11(b)(3)	
(c) Adjustment of estimated contract deliveries:	
(1) Estimated quantity of pig, ingot and billet covered by contracts of customers who are non-integrated users during second preceding period (Item 9 of report for second preceding period)	
(2) Actual quantity of pig, ingot and billet delivered under such contracts, or to other non-integrated users, during second preceding period	
(3) Difference between estimated and actual quantity	
(d) Net adjustment of Items 11 (a), (b) and (c) above	
12. Add (or deduct net adjustment for second preceding period*	
13. Adjusted remainder to be offered to non-integrated users by public advertisement	

*—Add if estimated quantity for second preceding period exceeds actual; Deduct if actual exceeds estimated.

Contract

BETWEEN

UNITED STATES OF AMERICA

AND

KAISER ALUMINUM & CHEMICAL CORPORATION

Executed May , 1954

As of February 28, 1952

CONTRACT

THIS CONTRACT, entered into as of the 28th day of February, 1952, by the UNITED STATES OF AMERICA, herein called the Government, acting through the Administrator of General Services, herein called the Administrator, and KAISER ALUMINUM & CHEMICAL CORPORATION, a corporation existing under the laws of the State of Delaware, herein called Contractor.

WITNESSETH:

ARTICLE I

SALE AND PURCHASE OF ALUMINUM

Subject to the terms and conditions hereof, Contractor agrees to produce and to sell Forty-one Thousand (41,000) short tons of Two Thousand (2,000) pounds each, of primary aluminum pig, which primary aluminum, herein called the "additional production," shall be of minimum grade of ninety-nine per cent (99%) aluminum. Contractor will produce such aluminum from facilities which Contractor agrees hereafter to construct, herein called the "additional facilities." Said production and sale shall commence upon the date of the completion of construction of such additional facilities, and shall reach and continue at a rate of approximately Eight Thousand Two Hundred (8,200) short tons per year as soon as possible after said completion of construction, and shall be completed within a period of five (5) years from the date when the additional facilities have reached production at their designed capacity of approximately Eight Thousand Two Hundred (8,200) short tons per year, unless otherwise terminated by the Government in accordance with the provisions of this contract. The times specified in the preceding sentence shall be subject to occurrences of force majeure as provided in ARTICLE VIII hereof.

Since the additional production will be obtained from the enlargement and improvement of Contractor's existing potlines at the Tacoma reduction plant, and since said enlargement and improvement will increase the capacity of said plant by Eight Thousand Two Hundred (8,200) short tons per year, or approximately Twenty-Six percent (26%) of the total capacity of said plant after enlargement and improvement, the additional production shall be deemed to be Eight Thousand Two Hundred (8,200) short tons per year (and proportionate amounts in greater or lesser periods) produced from the two potlines now in existence at Contractor's Tacoma Plant; *provided* that such quantity shall be reduced (but not below zero) at Contractor's option: (a) by the quantity of aluminum, up to the capacity of the additional facilities, Contractor is unable to produce at its Tacoma plant during any period by reason of force majeure inability to obtain purchased power, as defined in ARTICLE VIII hereof; and (b) by Twenty-Six percent (26%) of the production which contractor is unable to produce at its Tacoma plant during any period by reason of force majeure occurrences other than inability to obtain purchased power, as defined in ARTICLE VIII hereof.

Contractor hereby certifies that the additional facilities first reached production at their designed capacity of approximately Eight Thousand Two Hundred (8,200) short tons per year on March 1, 1953.

ARTICLE II

CONSTRUCTION OF ADDITIONAL FACILITIES

Contractor shall proceed without delay to acquire and construct the additional facilities for the production of said aluminum. The additional facilities hereinbefore referred to shall consist generally of additions to and alterations of Contractor's Tacoma, Washington aluminum reduction plant for the purpose of enlarging the productive capacity of the pots, and such auxil-

iary facilities as Contractor may consider necessary for the additional production. It is agreed that the date of completion of said additional facilities, originally intended to be August 31, 1952, was extended to November 20, 1952, by reason of force majeure.

ARTICLE III

Disposition of Production from Additional Facilities

Subject to priority delivery as may be required pursuant to law, the additional production shall be disposed of as follows:

(a)(1) The Government may require Contractor to sell to it, at the price provided in Article IV(b) hereof, all or any of the additional production for the six-month period beginning April 1, 1953 and for each subsequent six-month period of the contract. (The Government has waived its right to purchase the additional production through March 31, 1953.) At least ninety (90) days prior to the beginning of each period, the Government shall give notice in writing to Contractor of the amount of aluminum it elects to purchase from the production of the additional facilities for such period, and such notice shall be a firm order for the purchase of the quantities stated. If no notice is given within the times herein provided, Contractor shall be under no obligation to deliver aluminum to the Government during the relevant six-month period.

(2) The Government shall in each notice specify the amount of aluminum it desires to have comply with the latest National Stock Pile Material Purchase Specification in effect on the effective date of this contract, provided that the Government may not order more than One Thousand Three Hundred Sixty-six (1,366) short tons of aluminum meeting the Stock Pile Specification in any six-month period, or proportionate amounts in greater or lesser periods.

(3) It is the intent of the parties that the Administrator will exercise the Government's right to purchase aluminum

under this ARTICLE III(a) so as to purchase approximately equal percentages of the additional production produced by Contractor, by Aluminum Company of America and by Reynolds Metals Company, respectively, pursuant to aluminum supply contracts in effect at the time of such purchases, under the Government's entire program of expanded aluminum production, and the Administrator agrees that, insofar as practicable, the Government will not purchase from Contractor under this ARTICLE III(a) quantities which are proportionately larger, in relation to Contractor's portion of the entire program of expanded aluminum production, then under contract with the Government, than the quantities being purchased from such other companies; *provided,* that the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this subparagraph.

(b)(1) The quantity, if any, by which the Government's purchases during any six-month period fall short of two-thirds of the reasonably estimated additional production for such period, shall be offered and made available by Contractor for sale to non-integrated users in pig, ingot or billets at the price provided for in ARTICLE IV(a) hereof. As used in this Contract, the term "non-integrated user" shall mean any manufacturer, fabricator, finisher or producer in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing such aluminum for his own manufacturing, fabricating, finishing or producing operations. Said offer shall be made for at least thirty (30) days, and shall be made by publishing a notice in "The American Metal Market" or by such other method as Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during the period of thirty (30) days from the date of the first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least sixty (60) days prior to the beginning of each period.

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It is recognized that because of allocation controls Contractor was relieved of the duty to publish the above notice or notices and to make the above offer or offers to non-integrated users of aluminum produced through June 30, 1953, pursuant to a letter agreement dated July 31, 1952, accepted August 1, 1952, and a further letter agreement dated January 23, 1953, accepted January 29, 1953; and that Contractor's duty to make such offer for the balance of the period ending September 30, 1953, is subject to the provisions of a letter agreement dated and accepted June 15, 1953; copies of said letter agreements being attached to this Contract as Exhibits A, B, and C.

All orders shall be subject to Contractor's acceptance, to Contractor's approval of the credit of the purchaser and to Contractor's standard terms and conditions of sale then in effect. Subject to the provisions of the foregoing sentence, Contractor shall accept on a first-come first-served basis sufficient orders from non-integrated users to equal the quantity thus offered for sale, as above provided, but thereafter shall have no obligation to accept any further orders from non-integrated users for the period. Nothing herein shall prohibit Contractor, whenever the orders exceed the quantity offered for sale, from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other non-integrated users for such period. If, pursuant to the terms of this Article, the amount of aluminum which Contractor is obligated to offer for sale to such non-integrated users is zero, then Contractor need not publish the notice or make the offer to non-integrated users referred to above.

It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this

provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(2) It is recognized that Contractor has made and intends in the future to make contracts with such of its customers who are non-integrated users for the delivery of aluminum pig, ingots and billets which may be produced from the additional facilities. The maximum quantity of aluminum which Contractor may be obligated to deliver pursuant to such commitments for any applicable period may be deducted from the quantity which Contractor is obligated to make available to other non-integrated users for such period under this subparagraph (b), provided that Contractor may not so deduct any quantities to be delivered pursuant to any contract which requires Contractor to deliver in excess of Five Hundred Thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Administrator. The Administrator shall be deemed to have approved any such contract unless he disapproves the same and so notifies Contractor in writing within fifteen (15) days after written notice has been received by him of the terms of such contract. Any quantity so deducted by Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such period, shall be added to the quantity which Contractor is obligated to offer to non-integrated users during the subsequent period.

(3) If, after receiving the notice from the Government of the amount of aluminum it elects to purchase as provided in subparagraph (a) hereof, Contractor finds that the quantity ordered by the Government for any such period is such that it may be impossible for Contractor to fulfill its prior commitments to such other customers as are non-integrated users, Contractor may advise the Administrator of such fact. The Administrator shall thereupon review the quantity ordered by the Government and if under all of the circumstances the Administrator considers it advisable, he may reduce the quantity ordered by the Government.

(c) Any quantity of the additional production not disposed of in accordance with this ARTICLE, and not otherwise sold or utilized by Contractor may be tendered to the Government, in the form of pig only, during the period beginning November 20, 1952, and ending March 31, 1953, and thereafter during each consecutive twelve-month period, the first such period commencing April 1, 1953. Such tender or tenders shall be made during the first ten (10) days of any calendar month of such period and during the first ten (10) days following the expiration of such period, and all such tenders shall be deemed applicable to such period. The Government shall purchase the amount so tendered at the price specified in ARTICLE IV(b). The Government shall not be required to buy under this subparagraph (c) for any period specified in this subparagraph (c) more than the actual output of the additional aluminum reduction facilities during such period, less the quantity of such additional production disposed of in accordance with this ARTICLE III or otherwise sold or utilized by Contractor.

(d) In no event, except as provided in ARTICLE VI, shall the Government be obligated to order or to purchase, or the Contractor be obligated to accept orders from either the Government or non-integrated users for an amount of aluminum which, added to the prior production and sale or utilization by Contractor of aluminum from the additional facilities after the date of completion of such facilities, exceeds Forty-one Thousand (41,000) short tons.

ARTICLE IV

SALES PRICE OF ALUMINUM

(a) The price at which aluminum pig, ingot and billets shall be sold to non-integrated users in accordance with ARTICLE III(b) shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the standard terms and conditions applicable thereto).

(b) The price at which aluminum pig or ingot shall be sold to the Government in accordance with ARTICLE III(a) and III(c) shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the standard terms and conditions applicable thereto), *provided, however,* that if at the time of delivery the current published market price (including the standard terms and conditions applicable thereto) of either Aluminum Company of America or Reynolds Metals Company is lower than Contractor's published price, the price to the Government shall be the lower of: (a) the weighted average (as defined below) of the lowest current market prices so published of the three present producers averaged during the ninety (90) days preceding the date of delivery; or (b) Contractor's lowest published price in effect at the time of delivery for the corresponding grade, form, size and quantity of aluminum.

The weighted average shall be computed on the basis of the existing primary aluminum capacities of the three present producers which for the purposes of this clause shall conclusively be deemed to be Kaiser Aluminum & Chemical Corporation, twenty-five per cent (25%); Aluminum Company of America, forty-five per cent (45%); and Reynolds Metals Company, thirty per cent (30%).

Contractor shall invoice the Government at its said published market price in effect at the time of delivery and grant any credits required by the above formula in Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

ARTICLE V

RELATIONSHIP OF ADDITIONAL TO EXISTING FACILITIES

(a) It is the intention of this Contract that the Government by agreeing to purchase aluminum from the additional facilities as herein provided, guarantees the disposition of the entire output of the additional facilities to the extent of the Forty-one Thousand (41,000) ton quantity specified in ARTICLE I, subject to its right of termination as provided in ARTICLE IX. In this

connection, it is recognized that Contractor now has other aluminum reduction facilities in operation and in the course of construction and may in the future acquire further aluminum reduction facilities other than those to be constructed under this Contract. It is understood that, except as to orders from the Government expressly placed pursuant to the Contract for aluminum to be produced at the additional facilities to be constructed under this Contract, Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such other facilities, before disposing of or utilizing aluminum from the additional facilities, and that, in accordance with ARTICLE III(c), the Government will purchase from Contractor all of the production of the additional facilities not otherwise disposed of or utilized by Contractor. The Government does not, by this Contract, guarantee or agree to purchase production from other facilities.

(b) Without affecting the rights and duties of the parties as set forth in the preceding subparagraph, deliveries to the Government under this Contract may, at Contractor's option, be made by substituting aluminum produced from other facilities for aluminum actually produced at the additional facilities. In such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

(c) In the event that it becomes an economic burden for Contractor to continue to operate some or all of the additional facilities, as well as its existing facilities, Contractor may petition the Administrator, setting forth all of the facts and asking for the privilege of closing down all or any portion of the additional facilities that it considers uneconomic and of delivering from other facilities the aluminum to be delivered to the Government or non-integrated users hereunder. Upon receipt of such petition, the Administrator shall give careful and due consideration to such request and grant such relief, if any, as he considers equitable to Contractor, on such terms and conditions as he may determine, including, but not by way of limitation, a provision that Contractor continue to make aluminum available to non-integrated

users in the quantities and under the terms and conditions set forth in ARTICLE III(b).

Since the additional facilities will consist of enlargement and improvements of Contractor's existing potlines, and since said enlargement and improvement will increase capacity by approximately Twenty-Six per cent (26%) of the total capacity after enlargement and improvement, it will be assumed for purposes of this sub-paragraph (c) that the closing down of any of Contractor's Tacoma facilities up to Twenty-Six per cent (26%) of the total capacity shall constitute the closing down of additional rather than existing facilities.

ARTICLE VI

SALE OF ALUMINUM TO NON-INTEGRATED USERS FOR FIFTEEN YEARS

As an inducement to the Government to enter into this Contract, and as part of the consideration of this Contract, Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in ARTICLE I, and provided that the Government does not exercise its right of termination, pursuant to ARTICLE IX hereof, Contractor will each year make available for sale to non-integrated users, under credit conditions as to each purchaser satisfactory to Contractor, at Contractor's lowest published market price for the grade of aluminum involved as of date of delivery, and on Contractor's current standard terms and conditions of sale at time of purchase, a quantity of aluminum equal to Twenty-Five (25) per cent of the annual capacity of the additional facilities, *provided,* however, that the obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of Contractor's production year, make firm purchase commitments with Contractor for specific quantities for such production year. Said aluminum will be offered on a first-come, first-served basis, except that in the event Contractor for any year receives orders in excess of such Twenty-Five (25) per cent, nothing herein shall

prohibit Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this ARTICLE. Nothing contained in this ARTICLE shall require Contractor to operate the additional facilities, but Contractor shall be obligated to make available a quantity equal to twenty-five (25) per cent of the capacity of such additional facilities whether or not said facilities are actually operated.

It is understood and agreed that (1) the Government may enforce this provision in its own name, by seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (2) only the Government may enforce this provision and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VII

PAYMENT FOR ALUMINUM DELIVERED TO THE GOVERNMENT

Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

ARTICLE VIII

FORCE MAJEURE

The time for performance by Contractor of its obligations under the provisions of this Contract relating to the construction of the additional facilities, to the production and delivery of aluminum from such additional facilities, or to the operation of such additional facilities, shall be extended at the option of Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays,

interruptions or cessations occasioned by force majeure (herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of Contractor, including without limitation acts of God, strikes, fire, storm, sabotage, acts of law or public enemy, priority or allocation requirements or other acts of the Federal Government and inability of Contractor to obtain at any time sufficient power under reasonable conditions and at reasonable rates to operate the additional facilities at capacity, over and above any power required to operate Contractor's existing aluminum reduction facilities (including those facilities constructed at Contractor's Spokane (Mead), Washington, plant pursuant to contract No. GS-OOP (D)-12213 between the parties hereto executed as of October 31, 1951) in the Pacific Northwest at capacity, it being recognized for purposes of this ARTICLE VIII that the additional facilities can only be operated economically with power supplied by Bonneville Power Administration or by other sources at rates equivalent to Bonneville Power Administration's then prevailing rates to industrial users for hydro-electric power, and that at the present time such power may be available only on an interruptible basis); *provided,* that within ten (10) days after Contractor determines that in Contractor's opinion a particular force majeure occurrence may result in a major delay in the performance of this Contract, Contractor shall give to the Administrator written notice thereof, together with a statement setting forth the facts evidencing force majeure, and at the conclusion of the duration of each such force majeure, Contractor shall, within ten (10) days thereafter, give to the Government written notice of the termination of such force majeure, and *further provided,* that at the end of each six-month period, the first six-month period to begin with the date of execution of this Contract, Contractor shall give to the Government written notice of the occurrence of each force majeure not reported under the foregoing proviso, together with written notice of the termination of each such force majeure as shall have terminated within such six-month period.

It is understood that to such extent as may be mutually satisfactory to the parties and agreed in advance, Contractor may, during periods of power shortage, shut down or reduce

operations at its Mead plant, in lieu of shutting down or reducing operations at the additional facilities covered by this contract, and that in such event production from the additional facilities covered by this contract may, if so agreed, to the extent of the reduction in output at Contractor's Mead plant resulting from such shutdown or reduction of operations, be deemed to be production from Contractor's Mead plant.

ARTICLE IX

TERMINATION

The Government shall have the right to terminate this contract for its convenience effective at any time when or after the additional facilities have, subsequent to the date of completion of construction, produced Thirty-Six Thousand Nine Hundred (36,900) short tons of aluminum. Said right of the Government to terminate this contract may be exercised at any time after the completion of construction of the additional facilities by delivery to Contractor of a notice that said termination shall become effective upon the production of a specified number of tons (not less than Thirty-Six Thousand Nine Hundred (36,900)) from the additional facilities. Upon delivery of said notice to Contractor, this contract shall thereafter terminate when the specified number of tons shall have been produced; *provided that* in no event shall this contract terminate less than ninety (90) days after delivery of said notice to Contractor. If the Government has not previously delivered said notice of termination to Contractor, Contractor shall give six (6) months' notice to the Government of the estimated date as of which Thirty-Six Thousand Nine Hundred (36,900) tons shall have been produced from the additional facilities after the completion of construction.

The termination of this Contract as provided in this ARTICLE shall not have the effect of cancelling or terminating any order placed by the Government for aluminum pursuant to ARTICLE III(a) hereof or any tenders made by Contractor to the Government pursuant to ARTICLE III(c) before the effective date of termination, to the extent that production of such aluminum has been effected prior to such effective date of termination.

ARTICLE X

Administrator and General Services Administered

As used herein, the term "Administrator" means the Administrator of General Services and his successors in function, and the term "General Services Administration" means the General Services Administration, United States Government, and said Administration's successors in function.

ARTICLE XI

Performance by Subsidiaries

All or any part of the obligations of Contractor under this Contract may be performed by and in the name of any wholly-owned domestic subsidiary corporation or corporations of Contractor, and operations outside of the United States, its territories and possessions by domestic or foreign subsidiaries, *provided,* that Contractor guarantees such performance, and in such event at Contractor's request, any payment with respect to such portion of this Contract so performed by the subsidiary shall be made to such subsidiary. It is further understood that Contractor may conduct its sales of aluminum through its sales subsidiary corporation or corporations and that in such event, for the purposes of this Contract, the published prices of such subsidiary sales corporation or corporations or of Contractor, whichever shall be lower, shall be deemed the published prices of Contractor, and sales by such sales subsidiary corporation or corporations shall be considered the sales of Contractor.

ARTICLE XII

Points and Terms of Delivery

Contractor shall deliver aluminum to the Government at the delivery point within the continental United States specified in each order of the Government given pursuant to the terms of this Contract. Such delivery point may be f. o. b. point of origin (or

shipping point); f. o. b. Contractor's plant (warehouse or other facility) point of origin (or shipping point); f. o. b. point of origin (or shipping point), freight prepaid; f. o. b. point of origin (or shipping point), freight allowed; f. o. b. destination; or f. o. b. destination within buyer's premises; provided that such delivery point is in accordance with Contractor's standard terms and conditions applicable to the contract price in effect at the time of delivery. A delivery point other than in accordance with Contractor's standard terms and conditions applicable to the contract price in effect at time of delivery may be specified upon the mutual consent of the parties. Contractor shall be responsible for each shipment of aluminum covered by this Contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risk of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from Contractor to the Government.

ARTICLE XIII

Inspection

(a) All aluminum delivered to the Government pursuant to this Contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places including the period of manufacture, and in any event prior to final acceptance.

(b) In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the requirements of this Contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Administrator or his duly authorized representative, by and at the expense of Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the

rejection or requirement or replacement is disclosed. If Contractor fails to promptly remove such aluminum when requested by the Administrator or his duly authorized representative, and to proceed promptly with the replacement thereof, the Government at its option may (1) by contract or otherwise replace such aluminum and charge to Contractor the cost occasioned the Government thereby, or (2) terminate the right of Contractor to make delivery of the amount of aluminum so rejected for default, or (3) accept the aluminum so rejected at an appropriate reduction of the contract price.

(c) If any inspection or test is made by the Government on the premises of Contractor, Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of Contractor, it shall be at the expense of the Government, *provided,* that in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such a manner as not to unduly delay the work. The Government reserves the right to charge to Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by Contractor. Final acceptance or rejection of the aluminum shall be made within thirty (30) days after delivery; but failure to inspect and accept or reject aluminum shall neither relieve Contractor from responsibility for such aluminum as is not in accordance with the contract requirements nor impose liability on the Government therefor.

(d) The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to final acceptance. Except as otherwise provided in this Contract, final acceptance shall be conclusive except as regards latent defects, fraud, or such gross mistakes as amount to fraud.

(e) Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by Contractor shall be kept, complete and available to the Government during the performance of this Contract and for three (3) years thereafter.

ARTICLE XIV

Buy American Act

Contractor agrees that there will be delivered under this Contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this Article XIV as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act (41 U. S. Code 10 a-c), the foregoing provision shall not apply (i) with respect to supplies excepted by the Administrator from the application of that Act, (ii) with respect to supplies for use outside the United States, (iii) with respect to the supplies to be delivered under this Contract, which are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (iv) with respect to such supplies, from which the supplies to be delivered under this Contract are manufactured, as are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, *provided,* that this exception (iv) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

The Administrator hereby determines for the purpose of this Contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XV

Prison Labor Not to be Employed

In connection with the performance of work under this Contract, Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XVI

The Eight-Hour Law of 1912

This Contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912 as amended (40 U. S. Code 324-326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912 as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this Contract, in the employ of Contractor or any sub-contractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by Contractor or any subcontractor engaged in the performance of this Contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight

hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon Contractor for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government.

ARTICLE XVII

The Walsh-Healey Act

If this Contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed $10,000 and is otherwise subject to the Walsh-Healey Public Contracts Act as amended (41 U. S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XVIII

No Discrimination in Employment

In connection with the performance of work under this Contract, Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provisions in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XIX

MEMBERS OF CONGRESS

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Contract, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this Contract if made with a corporation for its general benefit.

ARTICLE XX

SOLICITATION

Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this Contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by Contractor for the purpose of securing business. For breach or violation of this warranty, the Government shall have the right to annul this Contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXI

PERFORMANCE DURING DISPUTES

In the event of any dispute arising under this Contract, Contractor shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of this Contract.

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ARTICLE XXII

DESCRIPTIVE HEADINGS

The Table of Contents and the descriptive headings of the several ARTICLES of this Contract are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

ARTICLE XXIII

CONTROLLING STATUTE

This Contract is entered into pursuant to the Defense Production Act of 1950, as amended (Public Law 774, 81st Congress; Public Laws 69, 96 and 429, 82d Congress).

IN WITNESS WHEREOF, the parties hereto have executed this Contract in quadruplicate this day of , 1954 as of February 28, 1952.

UNITED STATES OF AMERICA

By .....

KAISER ALUMINUM & CHEMICAL CORPORATION

By .....

Witness:

.....

Assistant Secretary

EXHIBIT A

KAISER ALUMINUM & CHEMICAL CORPORATION
1625 Eye Street N. W.
Washington 6, D. C.

July 31, 1952

Mr. Irving Gumbel
Assistant Administrator
General Services Administration
Washington 25, D. C.

Dear Mr. Gumbel:

For some time we have been discussing with you and with Mr. Byron Harding some minor changes in the Chalmette No. 1 supply contract and in the letter supply contracts covering the expansion of our Mead and Tacoma plants. On July 22nd, we submitted to Mr. Harding draft letter agreements incorporating these changes. Because of the pressure of more urgent duties, it has not yet been possible for Mr. Harding to complete his review of these drafts.

Meanwhile, some of the situations which the proposed amendments were designed to anticipate have already occurred, and others are about to occur in the very near future. For example, the expanded facilities at our Mead plant have already started production, requiring the taking of certain steps in the event that this contract is changed in the manner described below.

Accordingly, pending further action by Mr. Harding on the drafts submitted to him, we would appreciate it if you would confirm that General Services Administration and Kaiser Aluminum

& Chemical Corporation have agreed in principle on amendments of the above contracts which would have the following effects:

1. Provide that the six-month periods at Chalmette, Mead and Tacoma will begin on April 1 and October 1 of each year, with the first period running from the date of completion of construction to the following April 1 or October 1, unless this period is less than three months in which case the first period will run an additional six months. Since the periods under Chalmette Contract No. 2 are already conformed to whatever the periods may be under Chalmette Contract No. 1, no amendment of Chalmette Contract No. 2 is required.

2. Provide that the obligation to offer to non-integrated users for the period ending March 31, 1953 would be waived at all three plants, unless the Government removes allocation controls on aluminum before that date, in which case an offer would be made on reasonable notice for the remainder of the period.

3. Convert the Mead and Tacoma contracts to a "put-and-take" basis, eliminating the advance payment.

4. Waive the Government's right to notice before the new facilities at Mead and Tacoma are completed, as well as the Government's right to purchase metal produced at these plants through March 31, 1953. The waiver shall become inoperative effective one month after the date of termination or suspension of controls.

It is, of course, understood that within the spirit of this agreement in principle, both parties are free to propose necessary changes in the proposed draft amendments so as to carry out the intent of the parties.

Can you please indicate your agreement with the foregoing by signing and returning the enclosed copy of this letter.

Sincerely,

KAISER ALUMINUM & CHEMICAL CORPORATION

By /s/ DONALD BROWNE
Donald Browne
Vice President and Treasurer

Accepted Aug. 1st, 1952

GENERAL SERVICES ADMINISTRATION

By /s/ IRVING GUMBEL
Irving Gumbel
Assistant Administrator

DB/hj

EXHIBIT B

KAISER ALUMINUM & CHEMICAL CORPORATION
1625 Eye Street N. W.
Washington 6, D. C.

Mr. Irving Gumbel
Assistant Administrator
General Services Administration
Washington 25, D. C.

January 23, 1953

Dear Mr. Gumbel:

Please refer (1) to the Contracts No. GS-OOP(D)-12006, 12143, 12192 and 12213 between the Government and Kaiser Aluminum & Chemical Corporation, covering the production of our Chalmette, Louisiana plant (Step 1 and Step 2) and of the expanded facilities at our Tacoma, Washington and Mead, Washington plants, and (2) to the letter agreement between us dated July 31, 1952, accepted by the Government August 1, 1952.

Under these supply contracts and the above mentioned letter agreement, we are required to publish, beginning January 31, 1953, notices of offers to sell to non-integrated users aluminum to be produced during the period April 1—September 30, 1953 at the facilities covered by Contracts No. GS-OOP(D)-12006 (Chalmette Step 1), 12192 (Tacoma) and 12213 (Mead). In addition, we shall be required to publish a notice offering aluminum to be produced under Contract No. GS-OOP(D)-12143 (Chalmette Step 2) from April 1, 1953 through the date of completion of the additional facilities.

By your letter of February 5, 1952, the Government waived the requirement that we publish a notice of offer to non-integrated users of production under Contract No. GS-OOP(D)-12006 before the date of completion of the facilities. Similarly, by our letter agreement of July 31, 1952, accepted August 1, 1952, the Government agreed that the obligation to make such offer would be waived at all of our plants for the period ending March 31, 1953, unless the Government removed allocation controls on aluminum before that date.

These waivers were granted because offers to non-integrated users during the period when allocation controls were in effect would not only have been ineffective, in the sense that the company could not honor any of the orders made pursuant to those offers in the face of conflicting allocation directives, but also because such offers would have been confusing to purchasers of aluminum and would prejudice the smooth functioning of the allocation program. Since those same considerations will apply with equal force in the event that allocation controls on aluminum continue in effect beyond March 31, 1953, we propose that we be relieved of the duty to make offers to non-integrated users of aluminum produced under any of the four supply contracts until such time as allocation controls on aluminum pig and ingot are removed. Upon the expiration of controls, we shall publish the required notices beginning fifteen days after the date of termination of controls, said notices to cover aluminum pig and ingot to be produced beginning thirty days after the termination of such controls.

It is understood that if you agree to this proposal it will be incorporated in suitable amendments to the Chalmette No. 1 and Chalmette No. 2 contracts, and in the formal supply contracts covering production from the additional facilities at our Mead and Tacoma plants.

Would you please indicate your agreement with the foregoing by signing and returning the enclosed copy of this letter.

Very truly yours,

KAISER ALUMINUM & CHEMICAL CORPORATION

By /s/ CHAD F. CALHOUN
Chad F. Calhoun
Vice President

ACCEPTED: Jan 29, 1953.

GENERAL SERVICES ADMINISTRATION

By /s/ JESS LARSON
Administrator of General Services

EXHIBIT C

GENERAL SERVICES ADMINISTRATION

Emergency Procurement Service

Washington 25, D. C.
June 15, 1953

Kaiser Aluminum & Chemical Corporation
1625 Eye Street, N. W.
Washington, D. C.

Gentlemen:

Please refer to the following contracts between GSA and Kaiser Aluminum & Chemical Corporation:

(A) GS-OOP(D)-12006, as amended (Chalmette Step I).
(B) GS-OOP(D)-12143, as amended (Chalmette Step II).
(C) GS-OOP(D)-12213, as amended (Mead 8th Line).
(D) GS-OOP(D)-12192, as amended (Tacoma Expansion).
(E) GS-OOP(D)-12254, as amended (Chalmette Speed Up).

During the period of allocation controls on aluminum the Government waived the obligation of the contractors to make offers of primary aluminum to non-integrated users as provided in the first four contracts listed above. Civilian allocation controls on aluminum are now scheduled to terminate on June 30, 1953.

The Government and the contractors recently reached certain understandings with respect to the procedures to be followed for purchases by the Government and by non-integrated users of primary aluminum produced at the new facilities during the period July 1, 1953, through September 30, 1953. This letter is intended to confirm our agreement on such procedures for that period.

Calculations as to the quantity of primary aluminum to be made available to non-integrated users out of production for the

period July 1, through September 30, 1953, under the above-mentioned contracts shall be made on and in accordance with the provisions of the Report Form which is attached hereto as Exhibit "A". The computations in your report shall include the production under Contract GS-OOP(D)-12254, the Chalmette Speed Up Contract.

The above-mentioned report submitted by you today indicates that the quantity of primary aluminum contracted to be sold by you to non-integrated users from the third quarter, 1953 production, equals the amount required to be sold to non-integrated users under the provisions of the above-mentioned contracts. You are, therefore, relieved of any duty to offer any such production to non-integrated users by public advertisement, provided, of course, that the figures included in the report are accurate.

All primary aluminum purchased from your company by the Government for the national stock pile under priority and allocation orders for the third calendar quarter of 1953 shall be deemed to be metal produced under Contract GS-OOP(D)-12254, as amended (Chalmette Speed Up), up to the total production under such contract during said period, and any remainder so purchased by the Government shall be deemed to be metal produced under one or more of the other contracts mentioned above.

I hope that we may very shortly give further consideration to procedures for the handling of offers to non-integrated users and purchases by the Government under the referenced contracts with respect to aluminum to be produced subsequent to September 30, 1953.

If you are in agreement with the foregoing, please sign and return to me the original and one copy of this letter.

Very truly yours,

/s/ A J WALSH
A. J. Walsh
Commissioner

AGREED June 15, 1953

KAISER ALUMINUM & CHEMICAL CORPORATION

BY /s/ CHAD F. CALHOUN

REPORT ON ALUMINUM AVAILABLE FOR NON-INTEGRATED USERS

Company Reporting .....Period.....to.....

POUNDS

1. Total estimated production from all new supply contract facilities during period (including all metal produced from new facilities covered by Government purchase contracts, premium price or otherwise)
   (List amount for each contract separately)

2. Percentage of company's total estimated production during period represented by estimated production from new facilities (%)

3. Estimated quantity of all priority and allocation orders (including CMP carry-over) which company will be required to deliver during period under Order M-5A etc. (including orders for semi-fabricated and primary products but excluding orders for primary deducted under Items 7 and and 9 below, and excluding orders for secondary) all in equivalent pounds of aluminum pig lbs.

4. Deduct percentage (Item 2 above) of priority and allocation orders (Item 3 above) allocable to new facilities

5. Remainder subject to provisions of Article III(a) and (b) of supply contracts

6. 66⅔% of Item 5

		POUNDS
7.	Deduct Government purchases for period under supply contracts (except purchases for resale under Chalmette Speed Up, Rockdale Speed Up and Longview contracts), and stockpile directives based on production from new facilities	
8.	Remainder available for non-integrated users	
9.	Deduct estimated quantity of pig, ingot and billet covered by contracts with customers who are non-integrated users	
10.	Remainder to be offered to non-integrated users by public advertisement	
11.	Adjustments of estimates for second preceding period:	
	(a) Adjustment of production:	
	(1) Total estimated production during second preceding period (Item 1 of report for second preceding period)	
	(2) Actual production during second preceding period	
	(3) Difference between estimated and actual production	
	(4) 66⅔% of Item 11(a)(3)	
	(b) Adjustment of priority orders:	
	(1) Estimated quantity of priority and allocation orders for second preceding period allocable to new facilities (Item 4 of report for second preceding period)	

POUNDS

(2) Deduct actual quantity of priority and allocation deliveries for second preceding period allocable to new facilities

(3) Difference between estimated and actual quantity

(4) 66⅔% of Item 11(b)(3)

(c) Adjustment of estimated contract deliveries:

(1) Estimated quantity of pig, ingot and billet covered by contracts of customers who are non-integrated users during second preceding period (Item 9 of report for second preceding period)

(2) Actual quantity of pig, ingot and billet delivered under such contracts, or to other non-integrated users, during second preceding period

(3) Difference between estimated and actual quantity

(d) Net adjustment of Items 11 (a), (b) and (c) above

12. Add (or deduct net adjustment for second preceding period*

13. Adjusted remainder to be offered to non-integrated users by public advertisement

*—Add if estimated quantity for second preceding period exceeds actual; Deduct if actual exceeds estimated.

Contract No. GS-00-P(D)-12008

Contract

BETWEEN

UNITED STATES OF AMERICA

AND

REYNOLDS METALS COMPANY

EXECUTED JULY 18, 1951

AS OF DECEMBER 19, 1950

CONTRACT

THIS CONTRACT, entered into as of the 19th day of December, 1950, by the UNITED STATES OF AMERICA, herein called the Government, acting through the Administrator of General Services, herein called the Administrator, and REYNOLDS METALS COMPANY, a corporation existing under the laws of the State of Delaware, herein called the Contractor,

WITNESSETH:

ARTICLE I.

Subject to the terms and conditions hereof, Contractor agrees to produce and to sell Five Hundred Thousand (500,000) short tons of 2,000 pounds each, of primary aluminum pig, said primary aluminum to be of minimum grade of ninety-nine per cent (99%) aluminum, which primary aluminum is herein called the "additional production." The Contractor will produce such aluminum from facilities which the Contractor agrees hereafter to construct, and hereafter to complete with respect to a portion of such facilities already commenced, all herein called "additional facilities." Such production and sale shall commence upon the date of completion of the additional facilities (as defined hereinafter) and shall continue thereafter at a rate of approximately One Hundred Thousand (100,000) short tons per year, except that for the first six months of operation after the date of completion of the additional facilities, production may be at such lesser rate as may be necessarily inherent in newly constructed facilities. Such production and sale shall continue until Five Hundred Thousand (500,000) short tons of aluminum have been so produced from the additional facilities after the date of completion of construction (as defined hereinafter) and shall be completed within a period of six years after such date of completion, but in no event later than July 1, 1958, unless extended as hereinafter provided in ARTICLE XII. For the purposes of this contract the date of completion of construction of the additional

facilities shall be the first day upon which electrolytic cells capable of producing aluminum in the aggregate at the rate of 90,000 short tons per year, constructed as a part of the additional facilities, are tapped. Upon the occurrence of such event, Contractor shall forthwith issue a certificate to the Government certifying such date to be the date of said completion.

ARTICLE II.

Contractor shall proceed without delay with the construction and acquisition of the additional facilities for the production of said aluminum. The "additional facilities" shall be "additional aluminum reduction facilities," consisting of additional pots at the Jones Mills, Arkansas, Aluminum Reduction Plant; one additional pot line at said plant; additional pots at the Troutdale, Oregon, Aluminum Reduction Plant; and an aluminum reduction plant, power plant and related facilities at Corpus Christi, Texas, all as described in the letters from the Secretary of the Interior to the Administrator of General Services dated December 11 and December 29, 1950 and January 5, 1951, copies of which are attached hereto as Exhibits A, B, C and D respectively. As used in this contract, the terms "additional facilities" and "additional aluminum reduction facilities" shall have the meaning set forth in this ARTICLE II.

ARTICLE III.

Commencing with the date of completion of the additional facilities, and continuing until the termination or completion of this Contract, and subject to priority delivery as may be required pursuant to law, the aluminum produced at the additional facilities shall be disposed of as follows:

(a) (1) The Government may require Contractor to sell to it, at the price provided in ARTICLE XI hereof, all or any of the additional production for each consecutive six-month period during the continuance of this agreement, the first such period commencing with the date of completion of the additional facilities.

(2) Contractor shall, ninety (90) days before the date it estimates the additional facilities will be completed, advise the Gov-

ernment of the estimated date of completion and of the amount of aluminum it estimates it will produce from the additional facilities during the first six months after completion. It is recognized that, after the facilities are completed within the meaning of this agreement, additional time thereafter will be required to bring the aluminum reduction pots to full capacity, and that production for the first six months after completion of the plant may be less than the production in subsequent six-month periods. Within thirty (30) days after receipt of such notice, the Government shall notify the Contractor in writing of the amount of aluminum it elects to purchase during the first six-month period commencing with the date of completion of the facilities. The notice shall be a firm order for the purchase of the quantity stated, and deliveries to the Government shall commence as soon as practicable after the date of completion of the additional facilities. Notwithstanding such estimate, Contractor shall not be obligated to deliver to the Government aluminum in excess of the amount produced at the additional facilities during said period.

(3) Thereafter, at least ninety (90) days prior to the beginning of each subsequent six-month period during the continuance of this agreement and before completion thereof, the Government shall give notice in writing to Contractor of the amount of aluminum it elects to purchase from the production of the additional facilities for such period. Each such notice, when given, shall be a firm order for the purchase of the quantity stated. If no notice is given within the time provided in the preceding sentence, Contractor shall be under no obligation to deliver aluminum to the Government pursuant to this Article during the following six-month period.

(4) The Government shall in each such notice specify the amount of aluminum it desires to have comply with the National Stock Pile Material Purchase Specification current at the time of such notice. Thereafter, Contractor shall deliver such quantities in accordance with such specification, provided that (a) Contractor shall not be required under this subparagraph (4) to deliver metal meeting a specification more burdensome than Munitions Board Purchase Specification P-62 in effect at the date of this Con-

tract, and (b) the Government may not order more than sixteen thousand six hundred sixty-seven (16,667) short tons of aluminum meeting the Stock Pile Specification in any six-month period, or proportionate amounts in lesser periods.

(5) It is the intent of the parties that the Administrator will exercise the Government's right to purchase aluminum under this ARTICLE III (a) so as to purchase approximately equal percentages of the additional production produced by the Contractor, by Aluminum Company of America and by Kaiser Aluminum & Chemical Corporation, respectively, under this program of expanded aluminum production, and the Administrator agrees that insofar as practicable, the Government will not purchase from Contractor under this ARTICLE III (a) quantities which are inequitable to the Contractor in the light of the quantities being purchased from such other companies: *Provided,* that the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this subparagraph.

(6) Deliveries under all orders pursuant to this subparagraph (a) shall be made in approximately equal monthly quantities, unless a different delivery schedule is specified in the Government's notice; provided however that the Government shall not specify for delivery in any one month a quantity greater than one month's productive capacity of the additional facilities.

(b) (1) For each consecutive six-month period referred to in subparagraph (a) above, Contractor shall offer in pig, ingot or billets for sale to non-integrated users, at the price provided in ARTICLE XI hereof, the quantity, if any, by which the amount ordered by the Government for such six-month period, in accordance with subparagraph (a), is less than two-thirds of the reasonably estimated additional production for such period. (As used in this agreement, the term "non-integrated user" shall mean any manufacturer, fabricator, finisher or producer in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing such aluminum for his own manufacturing, fabricating, finishing or producing opera-

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tions.) Said offer shall be made for a period of at least thirty (30) days and shall be made by publishing a notice in "The American Metal Market" or by such other method as Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during a period of thirty (30) days from the date of first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least thirty (30) days prior to the beginning of the first six-month period and at least sixty (60) days prior to the beginning of each subsequent six-month period.

All orders shall be subject to Contractor's acceptance, to Contractor's approval of the credit of the purchaser and to Contractor's standard terms and conditions of sale then in effect. Subject to the provisions of the foregoing sentence, Contractor shall accept on a first-come first-served basis sufficient orders from non-integrated users to equal the quantity thus offered for sale, as above provided. Thereafter, and following expiration of the above period of thirty (30) days from the date of first publication of the notice in the event the quantity thus offered for sale is not fully purchased during said period, Contractor shall have no obligation to accept any further orders from non-integrated users for such six-month period. Nothing herein shall prohibit Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other non-integrated users for such period. Contractor may discontinue publication of the notice in the event Contractor has accepted prior to the expiration of the two weeks publication period sufficient orders from non-integrated users to equal the quantity offered for sale as hereinabove provided. If, pursuant to the terms of this Article, the amount of aluminum which Contractor is obligated to offer for sale to such non-integrated users is zero, then Contractor need not publish the notice or make the offer to non-integrated users referred to above.

It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific per-

formance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damage to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(2) It is recognized that Contractor has made and intends in the future to make contracts with such of its customers who are non-integrated users for the delivery of aluminum pig, ingots and billets which may be produced from the additional facilities. The maximum quantity of aluminum which Contractor may be obligated to deliver pursuant to such commitments for any applicable six-month period may be deducted from the quantity which Contractor is obligated to make available to other non-integrated users for such six-month period under this subparagraph (b), provided that Contractor may not so deduct any quantities to be delivered pursuant to any contract which requires Contractor to deliver in excess of Five Hundred Thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Administrator. The Administrator shall be deemed to have approved any such contract unless he disapproves the same and so notifies Contractor in writing within fifteen (15) days after written notice has been received by him of the terms of such contract. Any quantity so deducted by Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such six-month period, shall be added to the quantity which Contractor is obligated to offer to non-integrated users during the subsequent six-month period.

(3) If, after receiving the notice from the Government of the amount of aluminum it elects to purchase as provided in subparagraph (a) hereof, Contractor finds that the quantity ordered by the Government for any six-month period is such that it may be impossible for Contractor to fulfill its prior commitments to such other customers as are non-integrated users, Contractor may advise the Administrator of such fact. The Administrator shall

thereupon review the quantity ordered by the Government and if under all of the circumstances the Administrator considers it advisable, he may reduce the quantity ordered by the Government.

(c) Any quantity of additional production from the additional facilities not disposed of in accordance with this Article III, and not otherwise sold or utilized by Contractor, may be tendered to the Government in the form of pig only during each consecutive twelve (12) month period (the first such period commencing with the date of completion of the additional aluminum producing facilities). Such tender, or tenders, shall be made during the first ten (10) days of any calendar month during such period and during the first ten (10) days following the expiration of such period, and all such tenders shall be considered to be applicable to such period. The Government shall purchase the amount so tendered at the price specified in ARTICLE XI. The Government shall not be required to buy under this subparagraph (c), for any twelve-month period specified in this subparagraph (c) an amount greater than the actual output of the additional aluminum-producing facilities during such period, less the quantity of such additional production disposed of in accordance with this ARTICLE III and otherwise sold or utilized by Contractor.

(d) In no event except as provided in ARTICLE VII and ARTICLE IX, shall the Government be obligated to order or to purchase, or the Contractor be obligated to accept orders from either the Government or non-integrated users for an amount of aluminum which, added to the prior production and sale or utilization by the Contractor of aluminum from the additional facilities after the date of completion of such facilities, exceeds 500,000 short tons.

ARTICLE IV.

The Government may require the sale to it of all or any part of the aluminum produced from the additional facilities from the date of the beginning of commercial production and prior to the date of completion of the facilities. Such sale shall be at the price provided in ARTICLE XI hereof. When Contractor is reasonably able to do so, and between ninety (90) days and sixty (60) days before the date Contrac-

tor estimates commercial production will begin, it shall advise the Government of the time when it estimates that aluminum will first be commercially produced at the additional facilities and of the quantity which it estimates will be produced from such time until the date of completion of the facilities. Between sixty (60) days and thirty (30) days prior to the estimated date when aluminum will first be commercially produced, the Government shall notify the Contractor in writing of the amount of such metal it desires to purchase, which notice shall be a firm order by the Government to purchase the quantity of aluminum specified therein at the price and upon the terms and conditions herein set forth for the sale of aluminum to the Government after completion of the additional facilities, except that during such period Contractor shall not be required to deliver any aluminum of stockpile specifications beyond Contractor's reasonable ability to do so during said period, or any aluminum in an amount exceeding the production of the additional facilities. The Contractor shall offer in pig, ingot or billet form for sale to non-integrated users, at the prices provided in ARTICLE XI hereof, the quantity, if any, by which the amount ordered by the Government for said period is less than two-thirds of the estimated production from the additional facilities for such period, subject to the terms and conditions of ARTICLE III(b). Any quantity of aluminum produced during this period shall not reduce the quantities otherwise specified in this contract, and specifically shall not be included as a portion of the Five Hundred Thousand (500,000) tons specified in ARTICLE I, nor included in the Two Hundred Fifty Thousand (250,000) tons specified in ARTICLE VIII(a).

For the purposes of this Contract it is agreed that commercial production from the additional pots constructed at the Jones Mills, Arkansas, Aluminum Reduction Plant, the additional pot line at said plant, and the additional pots at the Troutdale, Oregon, Aluminum Reduction Plant will commence September 1, 1951.

ARTICLE V.

Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

ARTICLE VI.

(a) It is the intention of this Contract that the Government, by agreeing to purchase aluminum from the additional facilities as herein provided, guarantees the disposition of the entire output of the additional facilities to the extent of the Five Hundred Thousand (500,000) ton quantity specified in ARTICLE I, subject to the right of termination as provided in ARTICLE VIII. In this connection, it is recognized that Contractor now has other aluminum reduction facilities and may in the future acquire further aluminum reduction facilities other than those to be constructed under this contract. It is understood that, except as to orders from the Government expressly placed pursuant to this Contract for aluminum to be produced at the additional facilities constructed under this contract, Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such other facilities, before disposing of or utilizing aluminum from the additional facilities, and that, in accordance with ARTICLE III(c), the Government will purchase from Contractor all of the production of the additional facilities not otherwise disposed of or utilized by Contractor. The Government does not, by this Contract, guarantee or agree to purchase production from other facilities.

(b) Without affecting the rights and duties of the parties as set forth in the preceding subparagraph, deliveries to the Government under this contract may, at Contractor's option, be made by substituting aluminum produced from other facilities for aluminum actually produced at the additional facilities. In such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

(c) In the event that it becomes an economic burden for Contractor to continue to operate its present facilities, as well as the additional facilities, Contractor may petition the Administrator, setting forth all of the facts and asking for the privilege of closing down that portion of the additional facilities that it considers uneconomic and of delivering the aluminum to be delivered to the Government hereunder from other facilities. Upon receipt of such petition, the Administrator shall give careful and due consideration to such request and to such relief as he considers equitable to Contractor on such terms and conditions

as he may determine, including, without limitation, a requirement that the Contractor continue to make aluminum available to non-integrated users in the quantities and under the terms and conditions set forth in ARTICLE III(b).

ARTICLE VII.

As an inducement to the Government to enter into this contract, and as part of the consideration of this contract, Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in ARTICLE I, or until any loan guaranteed by the Government pursuant to ARTICLE X is fully repaid, whichever shall be the longer, and provided that the Government does not exercise its right of termination, Contractor will each year make available for sale to non-integrated users, under credit conditions as to each purchaser satisfactory to Contractor, at Contractor's lowest published market price for the grade of aluminum involved as of date of delivery, and on Contractor's current standard terms and conditions of sale at time of purchase, a quantity of aluminum equal to twenty-five (25) per cent of the annual capacity of the additional facilities, provided, however, that the obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of Contractor's production year, make firm purchase commitments with Contractor for specified quantities for such production year. Said aluminum will be offered on a first-come, first-served basis, except that in the event Contractor for any year receives orders in excess of such twenty-five (25) per cent, nothing herein shall prohibit the Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this Article. Nothing contained in this Article shall require Contractor to operate the additional facilities, but Contractor shall be obligated to make available a quantity equal to twenty-five (25) per cent of the capacity of such additional facilities whether or not said facilities are actually operated. It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may

sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VIII.

(a) The Government shall have the right to terminate this contract for its convenience when or at any time after the additional facilities have, subsequent to the date of completion of construction, produced Two Hundred Fifty Thousand (250,000) short tons of aluminum, by giving to Contractor a written notice of termination. Such notice shall state the date (hereinafter called the date of termination) upon which it is to become effective, which date shall be at least ninety (90) days after the date of its receipt by Contractor. The termination of this contract, as provided in this Article, shall not have the effect of cancelling or terminating any order placed by the Government for aluminum pursuant to ARTICLE III(a) hereof or any tenders made by Contractor to the Government pursuant to ARTICLE III(c) hereof before the effective date of termination, to the extent that production of such aluminum has been effected prior to such effective date of termination.

(b) If the Contractor or its assignee or assignees under assignments pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, as hereafter in subparagraph (b)(1) of this Article VIII permitted, at any time after such termination and before the cost of all the additional facilities to be completed and constructed hereunder—to wit, additional pots at the Jones Mills, Arkansas, Aluminum Reduction Plant; one additional pot line at said plant; additional pots at the Troutdale, Oregon, Aluminum Reduction Plant; and an aluminum reduction plant, power plant, and related facilities at Corpus Christi, Texas;—have been completely amortized, depreciated, or otherwise deducted for Federal income tax purposes, certifies to the Administrator that with respect to any or all of said facilities the cost of which has not been completely so amortized, depreciated or other-

wise deducted, the Company has discontinued the taking of the sixty (60) month amortization deduction authorized by Section 124A of the Internal Revenue Code:

(1) Thereupon there shall become due and payable from the Government to the Contractor a termination payment equal to the adjusted basis, as computed for amortization purposes for Federal income tax purposes, pursuant to the provisions of Section 124A(e) of the Internal Revenue Code of any such or all such facilities as of the beginning of the month in which such sixty (60) month amortization deduction has been discontinued. Contractor may assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institutions, including any Federal lending agency, as security for any loans obtained by the Contractor to construct the additional facilities, its right under the provisions of this Article VIII to receive such termination payment, in which event such termination payment to be made to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained by the Contractor to construct the additional facilities. The election by the Contractor to discontinue the taking of the sixty (60) month amortization deduction as to any of said facilities need not be made simultaneously but may be made at any time as to any facility until the cost of such facility has been amortized to the extent of the adjusted basis thereof for amortization purposes as defined by Section 124A(e) of the Internal Revenue Code. It is the intent of the Administrator and the Contractor that any termination payment which may be made pursuant to the provisions of this subparagraph will be compensation to the Contractor for the unamortized cost of an emergency facility because a contract with the United States involving the use of the facility has been terminated by its terms or by cancellation as provided in Section 124A(g) of the Internal Revenue Code, as amended by Section 216 of the Revenue Act of 1950, and the Administrator agrees to recommend to the certifying authority specified in Section 124A(g) that such authority so certify.

(2) If Contractor receives a termination payment or payments with respect to any one or more of such facilities pursuant to sub-

paragraph (b)(1) of this Article, Contractor shall pay to the Government a production charge as hereinafter specified on each ton of aluminum produced from any and all of the additional facilities after the receipt of each such payment and sold or utilized. Said production charge shall be paid by the Contractor regardless of whether the Contractor itself shall or shall not at any particular time or times, or from time to time, own or occupy any and all of the additional facilities, and regardless of whether, at any particular time or times, or from time to time, the operation of said additional facilities or the production of aluminum therefrom is effected by the Contractor or by some entity other than the Contractor; provided, however, that no production charge shall be payable with respect to the aluminum reduction plant, power plant and related facilities to be constructed at Corpus Christi, Texas, if or after the Government purchases said facilities under the provisions of Article XV of this Contract. The production charge per ton with respect to each such facility shall be seventy-five per cent (75%) of an amount determined by dividing (a) the number of tons obtained by subtracting from five hundred thousand (500,000) tons of aluminum the number of tons of aluminum actually produced from all the additional facilities pursuant to this contract from the date of completion of such additional facilities to the termination date into (b) the adjusted basis, as of the termination date, for amortization purposes, as computed for Federal income tax purposes pursuant to the provisions of Section 124A(e) of the Internal Revenue Code, of such facility with respect to which the termination payment was received. Such production charge shall be made with respect to each such facility either until the expiration of fifteen (15) years from the receipt of such termination payment in respect of such facility (and in such event shall also be paid on all aluminum produced from any and all of the additional facilities but not yet sold or utilized at the expiration of such fifteen-year period), or until the total of such production charges paid equals the amount of the termination payment in respect of such facility, whichever first occurs. After the occurrence of either said event, Contractor shall be under no further obligation to pay such production charge in respect of such facility.

(3) Within ninety (90) days after the end of each month after the date of the receipt of any termination payment and until Contractor's obligation to pay all production charges has expired, Contractor

shall furnish to the Government a certified statement of the number of tons of aluminum produced from the additional facilities and sold or utilized during such monthly period and shall, with such certificate, pay to the Government the amount of production charges due for such period.

(4) Contractor may, at its option, pay any production charge in advance, but shall in no event be required to pay any production charges except for aluminum actually produced from the additional facilities and sold or utilized (including aluminum produced from the additional facilities but not yet sold or utilized at the expiration of such fifteen-year (15) period).

(5) If the rate of such production charges, as calculated above, shall become an undue economic burden to the Contractor and Contractor shall so demonstrate to the satisfaction of the Administrator, then the Administrator shall grant such reduction in such rate and such extension of the period during which such reduced rate shall be payable upon actual production and sale or utilization, as he may deem appropriate.

(6) In the event of termination of this contract by the Government as provided in subparagraph (a) of this Article, the sole right and remedy of the Contractor, either at law or equity, shall be to receive a termination payment or payments, under the circumstances and subject to the terms and conditions set forth in this Article.

(c) If Contractor continues to take the sixty (60) month amortization deduction authorized by Section 124A of the Internal Revenue Code with respect to all of the additional facilities until the expiration of the sixty (60) month period, then the Government shall not be obligated to make any termination payment to Contractor, provided that Contractor may, at its option, elect to discontinue taking the sixty (60) month amortization deduction as to any of the additional facilities at any time after termination and prior to the expiration of such sixty (60) month period, and upon so doing, will be entitled to such termination payments as hereinbefore provided.

(d) Nothing in this contract is intended to limit or curtail Contractor's statutory right to discontinue amortization deductions under Section 124A of the said Code at any time, provided, however, that

Contractor's exercise of such right shall not increase the amount of the termination payment or payments otherwise payable to Contractor under this Article had Contractor not elected to exercise such right, nor extend the time within which Contractor may elect to take or may request any termination payment provided for in this Article. Whether Contractor is or is not taking, or has or has not taken amortization deductions under said Section 124A with respect to any of the additional facilities or any part thereof, the termination payment or payments with respect thereto shall be computed as if Contractor had been taking such amortization deductions. In any event, the limit of the Government's obligation to make any termination payment with respect to any facility shall not exceed eighty per cent (80%) of the cost of such facility for Federal income tax purposes less an amount equal to one-sixtieth (1/60th) of eighty per cent (80%) of such cost for each month following the month in which such facility was completed, up to and including the month preceding the month as of which the termination payment becomes due and payable.

ARTICLE IX.

While Contractor's obligation to make production charge payments to the Government pursuant to ARTICLE VIII continues, Contractor agrees, to the extent that it actually produces aluminum at such additional facilities, to make available aluminum produced at such facilities for sale to the Government, in the manner and subject to the conditions provided in ARTICLE III(a), and to non-integrated users, in the manner and subject to the conditions provided in ARTICLE III(b), at Contractor's lowest published market price at date of delivery, and on Contractor's current standard terms and conditions of sale in effect at time of purchase, provided that Contractor's obligation to sell aluminum to the Government and to non-integrated users during any period pursuant to this ARTICLE IX shall not exceed twenty-five per cent (25%) of the production of such additional facilities for such period.

ARTICLE X.

The Government, acting through General Services Administration as an authorized guaranteeing agency under Executive Order No. 10161, dated September 9, 1950, and Executive Order No. 10200, dated

January 3, 1951, agrees to guarantee any loans obtained by the Contractor to construct the additional facilities, to the extent required by the lender concerned and as determined by the guaranteeing agency after consideration of the recommendations of the appropriate Federal Reserve Bank. If any such loan is guaranteed and remains unpaid, in whole or in part, at the time any termination payment or payments described in ARTICLE VIII above is or are due to the Contractor from the Government, the Government reserves the right, at its option, to require the Contractor to apply any or all of such termination payment or payments to the payment of all or any part of the principal installments of said guaranteed loan in the regular order of maturity.

ARTICLE XI.

(a) The price at which aluminum pig, ingot and billets shall be sold to non-integrated users in accordance with ARTICLE III(b) and ARTICLE IV shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the terms and conditions applicable thereto).

The price at which aluminum pig and ingot shall be sold to the Government in accordance with ARTICLE III(a) and (c) and ARTICLE IV shall be Contractor's lowest published price for the grade involved (including the terms and conditions applicable thereto) in effect at the time of delivery, provided, however, that if at the time of delivery the current published market price of either Aluminum Company of America or Kaiser Aluminum & Chemical Corporation is lower than Contractor's published price, the price to the Government shall be the lower of: (i) the weighted average (as defined below) of the lowest current market prices so published of the three present producers averaged during the ninety (90) days preceding the date of delivery; or (ii) Contractor's lowest published price in effect at the time of delivery for the corresponding grade of aluminum.

The weighted average shall be computed on the basis of the then existing primary aluminum capacities of the three present producers which for the purposes of this clause shall conclusively be deemed to be Reynolds Metals Company, thirty per cent (30%); Aluminum Com-

pany of America, forty-five per cent (45%); and Kaiser Aluminum & Chemical Corporation, twenty-five per cent (25%).

Contractor shall invoice the Government at its said published market price in effect at the time of delivery and grant any credits required by the above formula in Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

(b) In the event that price controls are placed upon aluminum by the Government which result in Contractor's inability to earn a reasonable profit from the operation of the additional facilities and, after reasonable efforts, Contractor is unable to obtain relief from such price controls to the extent that such price controls cause such inability, then Contractor shall have the right to terminate the contract. Such termination shall become effective thirty (30) days after receipt of written notice thereof delivered by the Contractor to the Administrator, and upon such termination the provisions of ARTICLE VIII(b) through (d) shall apply. Contractor may assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained by the Contractor to construct the additional facilities, its right under the provisions of Article VIII(b) to receive a termination payment, in which event such termination payment to be made to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained by the Contractor to construct the additional facilities. For the purpose of this subparagraph (b), it is the understanding of the parties that Contractor's published market price shall represent the cost of production (exclusive of the amount of accelerated amortization in excess of normal depreciation) plus a reasonable profit, and that Contractor's profit existing at this time is a reasonable profit.

(c) In the event that the price control authorities grant relief to the Contractor in accordance with subparagraph (b) above, with respect to the Contractor's prices on sale to the Government or to non-

integrated users, or both, pursuant to this contract, then the prices authorized by such relief shall apply to such sales under this contract during the effective period of such relief, and upon the termination of such relief, the price provisions otherwise specified in this contract shall again govern.

ARTICLE XII.

The time for performance by the Contractor of its obligations under the provisions of this contract relating to the construction of the additional facilities, to the production and delivery of aluminum from such additional facilities, or to the operation of such additional facilities, shall be extended at the option of the Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions or cessations occasioned by force majeure (herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of the Contractor, including without limitation acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, and priority or allocation requirements or other acts of the Federal Government); *provided* that the Contractor shall give to the Administrator, within thirty (30) days after the occurrence of each such force majeure, written notice thereof together with a statement setting forth the facts evidencing such force majeure, and *further provided* that at the conclusion of the duration of each such force majeure the Contractor shall, within thirty (30) days thereafter, give to the Government written notice of the termination of such force majeure.

In the event that any occurrence of force majeure resulting from priority or allocation requirements or other acts of the Federal Government prevents the date of completion of the additional aluminum reduction facilities from occurring by or before January 1, 1953, the Contractor may, at any time thereafter, by written notice delivered to the Administrator, elect to proceed with the performance of this contract as if such date of completion had occurred. In the event of such election, the provisions of this contract which are expressly dependent upon the occurrence of such date of completion, including without limitation ARTICLE III and ARTICLE VIII hereof, shall become effective as if the date of completion of construction had occurred upon the date

of receipt of such notice by the Administrator, *provided* that the amount of aluminum which it shall be the duty of the Government to buy and the duty of the Contractor to sell to the Government and to non-integrated users hereunder in each subsequent six-month period specified in and under the conditions of ARTICLE III shall be limited to the actual capacity of the additional aluminum reduction facilities during such period; and *further provided* that the provisions of this Article shall not relieve Contractor from its obligations to complete the construction and operation of the additional facilities, except during the period or periods when Contractor is prevented from so doing by conditions of force majeure.

ARTICLE XIII.

(a) If the Contractor applies for and despite due diligence does not obtain guaranteed loans on terms satisfactory to Contractor pursuant to ARTICLE X hereof, within forty-five (45) days after the date when the Contractor applies for such guaranteed loans or after the date of execution of this agreement, whichever date may be the later, the Contractor may, at any time thereafter before such guaranteed loans are obtained, terminate this agreement on the terms provided in ARTICLE XIV hereof. If such guaranteed loans are applied for and not obtained within ninety (90) days after the Contractor applies for such guaranteed loans or after the date of execution of this agreement, whichever date may be the later, then the Government may also, at any time thereafter before such guaranteed loans are obtained, terminate this agreement on the terms provided in ARTICLE XIV hereof.

(b) If the contractor despite due diligence does not obtain all priorities and allocations necessary for the purchase and delivery of equipment, supplies, materials, and services of any nature required for the completion or placing into operation of the additional facilities, and the inability to obtain such priorities and allocations substantially interferes with the completion or placing into operation of the additional facilities for a consecutive period of 180 days, or such further period as may hereafter be mutually agreed upon, then the Contractor may terminate this agreement on the terms provided in ARTICLE XIV hereof.

ARTICLE XIV.

In the event this agreement is terminated pursuant to ARTICLE XIII, termination shall become effective thirty (30) days after receipt of notice delivered by Contractor to the Administrator, or by the Administrator to Contractor, as the case may be, and upon such termination the following provisions shall apply:

With respect to each contract or commitment theretofore made by Contractor and relating to the additional reduction facilities (including, without limitation, contracts and commitments for utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services), the Government shall reimburse Contractor for all expenditures actually made thereunder up to the date of termination. Contractor may assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained by the Contractor to construct the additional facilities, its right under the provisions of this ARTICLE XIV to receive such reimbursement, in which event such reimbursement to be paid to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained by the Contractor to construct the additional facilities. The Government shall either, at its option, (i) require the assignment by Contractor to the Government of such contract or commitment and assume Contractor's obligations thereunder, or (ii) direct Contractor to cancel or settle such contract or commitment and reimburse Contractor for its expenditures in effecting such cancellation and settlement. Contractor shall thereupon transfer or deliver to the Government all real and personal property obtained by Contractor as a result of such expenditures and not previously consumed. Contracts and commitments within the meaning of this ARTICLE XIV shall be deemed to include, without limitation, any utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services relating to the additional reduction facilities supplied or to be supplied or performed or to be performed by the Contractor itself.

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ARTICLE XV.

(a) If (1) this agreement has been terminated pursuant to ARTICLE VIII or ARTICLE XI(b) hereof, and (2) Contractor is obligated to make production payments to the Government, and (3) at the time notice of exercise of the option by the Government hereinafter referred to is given, the additional reduction facilities, as such facilities are defined in ARTICLE II, including all additions, renewals and improvements thereof and thereto, but excluding the additional pots and one additional pot line at the Jones Mills, Arkansas, Aluminum Reduction Plant and additional pots at the Troutdale, Oregon, Aluminum Reduction Plant, are and have been substantially idle for a continuous period of at least one (1) year immediately prior to the receipt of such notice (not including in the computation of such period any time during which conditions of force majeure, as defined in ARTICLE XII, exist) then the Government shall have the option to purchase the additional reduction facilities from Contractor, exclusive of the additional pots and one additional pot line at the Jones Mills, Arkansas, Aluminum Reduction Plant and additional pots at the Troutdale, Oregon, Aluminum Reduction Plant, at a price calculated as set forth below. The Government's option shall be exercised by delivering a written notice to Contractor of its election to exercise such option, stating the date it shall become effective, which date shall not be less than ninety (90) days from the date of its receipt by Contractor.

(b) If Contractor, in good faith, before the effective date of the option, places the additional reduction facilities subject to option in substantial operation, then the Government's exercise of its option to purchase shall become without effect, but the Government shall thereafter have the option to purchase said facilities if, at a later date, all of the conditions set forth in subparagraph (a) of this Article recur, subject to the same terms and conditions of subparagraphs (a) and (b) of this Article.

(c) For the purpose of subparagraphs (a) and (b) above, the additional reduction facilities subject to option shall be deemed to be substantially idle unless facilities capable of producing thirty-five million pounds (35,000,000) of aluminum per year are in operation,

and substantial operation of the additional reduction facilities subject to option shall consist of the operation of facilities capable of producing at least thirty-five million pounds (35,000,000) of aluminum per year.

(d) The purchase price for the additional reduction facilities shall be such amount as shall fully reimburse Contractor for the entire cost of the facilities to be purchased after deducting from such cost the profit or adding thereto the loss, as the case may be, resulting from the operation and maintenance of said facilities from the date of their initial operation to the effective date of the exercise of the option.

In computing the purchase price, the following adjustments shall be made and the principles herein stated shall be followed:

1. There shall be deducted from the cost of the additional reduction facilities the amount of termination payments paid by the Government to Contractor on account of said facilities purchased, less production charges paid by Contractor on account of said facilities.

2. In determining Contractor's profit or loss: (i) Amortization and depreciation of said facilities to be purchased which has actually been taken shall be subtracted from the cost of operations; (ii) the cost of operations shall include all costs of starting up, shutting down and of maintaining said facilities purchased in standby condition, including all costs of cancelling commitments resulting from shutdowns and all interest accrued or paid by Contractor on borrowed money attributable to the construction or operation of the additional facilities; (iii) The costs of operation shall include a charge for alumina and any other materials furnished by Contractor for operation of said facilities at fair market prices but not less than Contractor's cost of furnishing same (including applicable depreciation and depletion at normal rates) plus a reasonable profit; provided, however, that if such alumina or other materials are purchased by the Contractor from a wholly-owned subsidiary, the charge to be included shall be at fair market value, but not less than such subsidiary's costs of furnishing the same (including depreciation and depletion at normal rates) plus a reasonable profit, with the further qualification that such computa-

tions of costs and profits shall be not more than such subsidiary is currently charging others for the same materials; (iv) There shall be deducted from the profit of each year, or added to the loss of each year of operating said facilities, a pro rata share of the general administrative and selling expenses, and said expenses shall be prorated in the proportion which the net sales and the value of intracompany and intercompany transfers of products produced by the additional reduction facilities bear to the total net sales and the value of intracompany and intercompany transfers of the Contractor and its wholly-owned subsidiaries for such year. In calculating the foregoing proportion with respect to selling expenses, sales to the Government under this contract shall be excluded; (v) Any intracompany or intercompany sales or transfers shall be deemed to have been made at the Contractor's current market prices.

3. Contractor's profit or loss in the fabrication of any aluminum produced at the said facilities shall be excluded from all computations of the purchase price of said facilities, it being understood that neither the profit nor loss resulting from the operation of any of Contractor's facilities, other than those being purchased by the Government pursuant to this option, is to be taken into account in determination of the purchase price.

4. There shall be deducted from such purchase price any tax benefit which may be realized by the Contractor as a result of the deduction by the Contractor of any net operating loss attributable to the said facilities (computed with the deduction of depreciation or amortization pursuant to the provisions of Section 124A of the Internal Revenue Code as actually allowed for the purposes of computing Contractor's Federal income and excess profits tax liabilities) from net income from other operations of the Contractor.

5. It is the intent of the parties that Contractor shall be fully reimbursed for all of its expenditures as hereinabove defined for the construction, acquisition, maintenance, operation and shutdown of the facilities purchased, without profit or loss to Contractor (excluding profit or loss from the production of raw materials and the fabrication of aluminum), as if Contractor had never

owned said facilities. If payment of said purchase price does not so reimburse Contractor because of taxes payable as a result of receipt thereof, then the purchase price shall be adjusted so that Contractor is so reimbursed without profit or loss as if Contractor had never owned or operated the said facilities.

(e) As promptly as possible after the receipt of notice of the exercise of the option, the parties shall compute and agree upon the purchase price. Upon the effective date of the option, Contractor shall execute and deliver to the Government a deed to all of said property. Contractor shall be obligated to convey only such title to the property as it or its subsidiaries hold at the time it receives the notice from the Government exercising the option, except that the property shall be conveyed free and clear of all liens and encumbrances for indebtedness incurred by Contractor with the exception of any lien or encumbrance held by the Government. At the same time Contractor shall assign and transfer to the Government such contracts relating to the operation of the facilities as it has the right to assign and transfer and upon such assignment and transfer the Government shall assume all obligations for the further performance thereof. The purchase price shall become due and payable upon delivery of the deed of the Contractor to the Government, and if the parties have not agreed upon the purchase price then the Government shall pay to the Contractor the amount it shall have computed as the purchase price without prejudice to the right of Contractor to negotiate further with the Government in an effort to arrive at a purchase price satisfactory to Contractor and failing that without prejudice to whatever rights it may have to proceed in the Court of Claims to recover such an amount which when added to the amount which has heretofore been paid it shall in the judgment of the Court of Claims represent the appropriate purchase price computed under the provisions of this ARTICLE XV. In any such action in the Court of Claims the determination of an appropriate purchase price computed under the provisions of this ARTICLE XV shall be de novo, and any prior calculation or calculations by either party of any item or items entering into the computation of the purchase price theretofore paid to the Contractor, shall be without prejudice to either party in such action.

Contractor may assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained by the Contractor to construct the additional facilities, its right under the provisions of this ARTICLE XV to receive such purchase price, in which event such purchase price to be paid to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained by the Contractor to construct the additional facilities.

ARTICLE XVI.

As used herein, the term "Administrator" means the Administrator of General Services and his successors in function.

ARTICLE XVII.

All or any part of the obligations of Contractor under this agreement may be performed by and in the name of any wholly-owned domestic subsidiary corporation or corporations of Contractor, provided that Contractor guarantees such performance, and in such event at Contractor's request, any payment with respect to such portion of the contract so performed by the subsidiary shall be made to such subsidiary. It is understood that Contractor may determine to conduct its sales of aluminum through a sales subsidiary corporation or corporations and that in such event, for the purposes of this agreement, the published prices of such subsidiary sales corporation or corporations or of the Contractor, whichever shall be lower, shall be deemed the published prices of Contractor, and sales by such subsidiary sales corporation or corporations shall be considered the sales of Contractor.

ARTICLE XVIII.

It is understood that Contractor may install equipment at the additional aluminum reduction facilities for the conversion of a portion of the capacity of such facilities from pig to ingot. Contractor shall be

obligated to deliver aluminum ingot to the Government or to non-integrated users during any period to the extent of orders received under the terms of this agreement, but not to exceed the quantity of ingot which the Contractor is reasonably able to produce with the equipment installed at the additional aluminum reduction facilities during such period.

ARTICLE XIX.

Contractor shall deliver aluminum to the Government at the delivery point within the continental United States specified in each order of the Government given pursuant to the terms of this contract. Such delivery point may be f.o.b. point of origin (or shipping point); f.o.b. Contractor's plant (warehouse or other facility) point of origin (or shipping point); f.o.b. point of origin (or shipping point), freight prepaid; f.o.b. point of origin (or shipping point), freight allowed; f.o.b. destination; or f.o.b. destination within buyer's premises; provided that such delivery point is in accordance with the Contractor's terms and conditions applicable to the contract price in effect at the time of delivery. A delivery point other than in accordance with Contractor's terms and conditions applicable to the contract price in effect at time of delivery may be specified upon the mutual consent of the parties. Contractor shall be responsible for each shipment of aluminum covered by this contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risk of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from Contractor to the Government.

ARTICLE XX.

(a) All aluminum delivered to the Government pursuant to this contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places including the period of manufacture, and in any event prior to final acceptance.

(b) In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the requirements of this

contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Administrator or his duly authorized representative, by and at the expense of the Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the rejction or requirement of replacement is disclosed. If the Contractor fails to promptly remove such aluminum when requested by the Administrator or his duly authorized representative, and to proceed promptly with the replacement thereof, the Government at its option may (1) by contract or otherwise replace such aluminum and charge to the Contractor the cost occasioned the Government thereby, or (2) terminate the right of the Contractor to make delivery of the amount of aluminum so rejected for default, or (3) accept the aluminum so rejected at an appropriate reduction of the contract price.

(c) If any inspection or test is made by the Government on the premises of the Contractor, the Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of the Contractor, it shall be at the expense of the Government: *Provided,* That in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such a manner as not to unduly delay the work. The Government reserves the right to charge to the Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by the Contractor. Final acceptance or rejection of the aluminum shall be made as promptly as practicable after delivery, but in any event within thirty (30) days thereafter.

(d) The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve the Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to final acceptance. Ex-

cept as otherwise provided in this contract, final acceptance shall be conclusive except as regards latent defects or fraud.

(e) The Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by the Contractor shall be kept complete and available to the Government during the performance of this contract and for such longer period as may be specified elsewhere in this contract.

ARTICLE XXI.

The Contractor agrees that there will be delivered under this contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this clause as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act (41 U. S. Code 10a-c), the foregoing provision shall not apply (i) with respect to supplies excepted by the Administrator from the application of that Act, (ii) with respect to supplies for use outside the United States, (iii) with respect to the supplies to be delivered under this contract, which are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (iv) with respect to such supplies, from which the supplies to be delivered under this contract are manufactured, as are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, provided that this exception (iv) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

The Administrator hereby determines for the purpose of this contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XXII.

In connection with the performance of work under this contract, the Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XXIII.

This contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912 as amended (40 U. S. Code 324-326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912 as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the Contractor or any subcontractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by the Contractor or any subcontractor engaged in the performance of this contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon the Contractor for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more

than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government.

ARTICLE XXIV.

If this contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed $10,000 and is otherwise subject to the Walsh-Healey Public Contracts Act as amended (41 U. S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XXV.

In connection with the performance of work under this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provisions in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XXVI.

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this contract, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE XXVII.

The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established

commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXVIII.

In the event of any dispute arising under this contract, the Contractor shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of this contract.

ARTICLE XXIX.

This contract is entered into pursuant to the Defense Production Act of 1950 (Public Law 774, 81st Congress); the Strategic and Critical Materials Stock Piling Act (Public Law 520, 79th Congress); and the Federal Property and Administrative Services Act of 1949 (Public Law 152, 81st Congress), as amended.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals this 18th day of July, 1951, as of December 19, 1950.

UNITED STATES OF AMERICA

By (Signed) JESS LARSON (SEAL)
Administrator of General Services

REYNOLDS METALS COMPANY

By (Signed) MARION M. CASKIE
Executive Vice President

ATTEST:

(Signed) PRESTON WICKHAM
Assistant Secretary

(SEAL)

EXHIBIT A.

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

December 11, 1950

My dear Mr. Larson:

Pursuant to the provisions of the Defense Production Act of 1950 (Public Law 774, 81st Congress) and the President's Executive Order No. 10161 of September 9, 1950 (15 F. R. 6105), to enable you to enter into suitable contracts for the purchase of or commitments to purchase aluminum, and to enable you or any other authorized agency of the Government to make provision for loans (including participations in, or guarantees of, loans) to domestic producers, all under the provisions of said Act and Order, and all within the limits of the following certifications, I do hereby certify that the following are necessary in the interests of national defense and to carry out the express purpose and policies of said Act and Order:

1. The construction of new facilities for production of aluminum within as short a period as possible to increase the production capacity in the United States by 450,000 tons per annum. As the military and essential civilian programs are made more firm, this goal may have to be enlarged.

2. The negotiation and entering into of suitable contracts to purchase or commitments to purchase all or so much of said additional production by the Government as may be necessary to procure the construction and installation of facilities for its production.

3. This certification relates to the construction of and production from all or any of the following facilities:

a. Facilities having a capacity of 120,000 tons per annum to be constructed by the Aluminum Company of America.

b. Facilities having a capacity of 100,000 tons per annum to be constructed by Reynolds Metals Company.

c. Facilities having a capacity of 100,000 tons per annum to be constructed by Kaiser Aluminum and Chemical Corporation.

d. Facilities having a capacity of 54,000 tons per annum to be constructed by the Apex Smelting Company.

e. Facilities having a capacity of 72,000 tons per annum to be constructed by the Harvey Machine Company.

Without in any manner desiring to dictate to you the terms and provisions of these aluminum contracts, I think it desirable to call to your attention that with respect to Apex and Harvey serious consideration should be given to the desirability of assuring that terms for these companies are based on an adequate showing that their costs and prices will not diverge so materially from those of established producers as to threaten the existing cost and resulting low price policies of the industry.

The location and type of power to be utilized by most of the above plants cannot yet be specified, but it is understood that the selection will be made on the basis of the lowest cost of producing aluminum consistent with the earliest date production can begin. In issuing this certification, I am reserving for certification later the plant locations and types of power under consideration for each aluminum producer. I want to review the proposed locations and types of electric power and source of energy, whether steam, gas engine or hydro, for each aluminum plant. It will be necessary to verify the feasibility of proposed schedules to produce and install the electrical equipment, and to determine what action may be necessary to rearrange production schedules where manufacturers' assembly lines are already committed. This is essential to avoid conflict with the large power requirements that must also be scheduled for other urgent programs, particularly atomic energy and certain chemicals and metals.

Sincerely yours,

/s/ Oscar L. Chapman
Secretary of the Interior

Hon. Jess Larson, Administrator
General Services Administration
Washington 25, D. C.

EXHIBIT B.

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

Dec. 29, 1950.

My dear Mr. Larson:

This will supplement my letter of December 11, 1950, certifying under section 303 of Executive Order 10161 to the necessity for additional aluminum production in the interest of national defense. At this time I wish to complete my certification in the case of the proposed facilities for the production of 20,000 short-tons of aluminum per annum to be constructed by Reynolds Metal Company.

Company—Reynolds Metal Company

Capacity—Approximately 20,000 short-tons of aluminum per year.

Type of Power—A contract has been entered into with the Arkansas Power and Light Company to furnish this power from steam equipment. Natural gas for fuel will be supplied to the power company under Reynolds Metal Company contract with the Arkansas, Louisiana Gas Company. Reynolds Metal Company will install a steam boiler in its Hurricane Creek Plant at Bauxite to generate power and interchange 4,000 kw with the Arkansas Power and Light Company.

Location—The reduction plant and related facilities to be located at Jones-Mills, Arkansas.

I extend my certificate dated December 11, 1950, with respect to facilities having a capacity of 20,000 short-tons per annum to be constructed by Reynolds Metal Company, and to include the location and power supplies set forth above.

This certification does not imply an obligation on the part of the United States to schedule manufacturers' production of steam power generating equipment in a preferred position if interim electric power supply can be obtained from other sources.

It is estimated by the Reynolds Metal Company that the aluminum plant will be completed June or July of 1951. Arrangements have been made for delivery of power upon completion of the aluminum plant.

Sincerely yours,

(Sgd.) OSCAR L. CHAPMAN
Secretary of the Interior

HON. JESS LARSON, Administrator
General Services Administration
Washington 25, D. C.

EXHIBIT C.

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

Dec. 29, 1950.

My dear Mr. Larson:

This will supplement my letter of December 11, 1950, certifying under section 303 of Executive Order 10161 to the necessity for additional aluminum production in the interest of national defense. At this time I wish to complete my certification in the case of the proposed facilities for the production of 5,000 short-tons of aluminum per annum to be constructed by Reynolds Metal Company.

Company—Reynolds Metal Company

Capacity—Approximately 5,000 short-tons of aluminum per year.

Type of Power—Supplied by the Bonneville Power Administration on an interruptible basis and available when the aluminum facilities are completed which is estimated to be March or April 1951.

Location—Troutdale, Oregon

I extend my certificate dated December 11, 1950, with respect to facilities having a capacity of 5,000 short-tons per annun to be constructed by Reynolds Metal Company, and to include the location and power supplied as set forth above.

It is estimated by the Reynolds Metal Company that the aluminum plant will be completed March or April 1951. Arrangements have been made for interruptible power as of this date.

Sincerely yours,

(Sgd.) OSCAR L. CHAPMAN
Secretary of the Interior

HON. JESS LARSON, Administrator
General Services Administration
Washington 25, D. C.

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EXHIBIT D.

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

Jan -5 1951

My dear Mr. Larson:

This will supplement my letter of December 11, 1950, certifying under Section 303 of Executive Order 10161, to the necessity for additional aluminum production in the interest of national defense. At this time, I wish to complete my certification in the case of proposed facilities for the production of 75,000 short tons of aluminum per annum to be constructed by Reynolds Metals Company.

Company—Reynolds Metals Company

Capacity—Approximately 75,000 short tons of aluminum per year.

Type of Power—Construction of new power plant, using natural gas as fuel in Diesel engines or gas engines or steam boilers, or some combination of these.

Location—The area of Corpus Christi, Texas.

I extend my certification dated December 11, 1950, with respect to facilities having a capacity of 75,000 short tons per annum to be constructed by Reynolds Metals Company and to include the location and power supplies as set forth above.

This certification does not imply an obligation on the part of the United States to schedule manufacturers' production of steam power generating equipment in a preferred position if interim electric power supply can be obtained from other sources.

Since the details of the power plant have not yet been fully developed by the Company, it is my understanding that the Company will keep me fully advised and furnish me with copies of plans, when

they have been developed, including copies of fuel or power supply contracts, as to the specific location and details of power and fuel source and price.

Sincerely yours,

(Sgd.) OSCAR L. CHAPMAN
Secretary of the Interior

HON. JESS LARSON, Administrator
General Services Administration
Washington 25, D. C.

AMENDMENT NO. 1 TO CONTRACT NO. GS–OOP(D)–12008 BETWEEN THE UNITED STATES OF AMERICA AND REYNOLDS METALS COMPANY

Contract No. GS–OOP(D)–12008, executed July 18, 1951, between the United States of America and Reynolds Metals Company, is hereby amended as follows:

1. Subparagraph (a) of Article VIII of said contract is hereby deleted.

2. All references in said contract relating to the right of the Government to terminate said contract pursuant to Article VIII and to the termination of said contract by the Government pursuant to Article VIII shall be considered to be deleted.

3. The first sentence of subparagraph (a) of Article XV of said contract is hereby amended by deleting the phrase "one (1) year" in clause (3) of said sentence and inserting in place thereof the phrase "ninety (90) days".

IN WITNESS WHEREOF the parties hereto have executed this Amendment in quadruplicate this 27th day of February, 1953.

[SEAL]

UNITED STATES OF AMERICA,
By RUSSELL FORBES,
Acting Administrator of General Services.

REYNOLDS METALS COMPANY,
By MARION M. CASKIE,
Executive Vice President.

Attest:

B. P. HOLLAND, JR.,
Assistant Secretary.

Contract

AMONG

UNITED STATES OF AMERICA,

REYNOLDS METALS COMPANY

AND

REYNOLDS REDUCTION COMPANY

EXECUTED OCTOBER 22, 1952
AS OF OCTOBER 11, 1951

CONTRACT

THIS CONTRACT, entered into as of the 11th day of October, 1951, by the UNITED STATES OF AMERICA, herein called the Government, acting through the Administrator of General Services, herein called the Administrator, and REYNOLDS METALS COMPANY, a corporation existing under the laws of the State of Delaware, herein called Contractor, and REYNOLDS REDUCTION COMPANY, a corporation existing under the laws of the State of Delaware, herein called Reduction,

WITNESSETH:

WHEREAS, Reduction, all the outstanding stock of which is owned by Contractor, proposes to acquire and own the "additional facilities" hereinafter described in paragraphs (a)(ii) and (b) of ARTICLE II, to borrow money for the purpose of constructing and acquiring such facilities, to mortgage such facilities to secure the payment of said borrowings and to lease such facilities to Contractor for operation by it, and

WHEREAS, Contractor proposes to operate such facilities and produce and sell aluminum pursuant to the terms of this Contract and to that end has entered into a Lease with Reduction, dated as of April 1, 1952, and into a Finance Agreement dated as of April 1, 1952, with Reduction and Manufacturers Trust Company, as Trustee under a Mortgage and Deed of Trust dated as of April 1, 1952, between Reduction and Manufacturers Trust Company and A. F. Keuthen, as Trustees,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.

PRODUCTION AND SALE OF ALUMINUM

Subject to the terms and conditions hereof, Contractor agrees to produce and to sell Three Hundred Thousand (300,000) short tons of 2,000 pounds each, of primary aluminum pig, said primary aluminum to be of minimum grade of ninety-nine per cent (99%) aluminum,

which primary aluminum is herein called the "additional production". Contractor will produce such aluminum from facilities which Contractor and Reduction agree hereafter to construct, herein called the "additional facilities". Such production and sale shall commence upon the date of completion of the additional facilities (as defined hereinafter) and shall continue thereafter at a rate of approximately Sixty Thousand (60,000) short tons per year, except that for the first six months of operation after the date of completion of the additional facilities, production may be at such lesser rate as may be necessarily inherent in newly constructed facilities. Such production and sale shall continue until Three Hundred Thousand (300,000) short tons of aluminum have been so produced from the additional facilities after the date of completion of construction (as defined hereinafter) and shall be completed within a period of six years after such date of completion, but in no event later than June 30, 1959, unless extended as hereinafter provided in ARTICLE XII. For the purposes of this contract the date of completion of construction of the additional facilities shall be the first day on which there shall have been tapped electrolytic cells constructed as a part of the aluminum reduction plant hereinafter described in ARTICLE II(a)(ii) capable of producing aluminum in the aggregate at a rate in short tons which will equal the difference between 54,000 short tons per year and the amount by which the rated annual production capacity of Contractor's Corpus Christi, Texas aluminum reduction plant shall have been increased over 75,000 short tons per year. Upon the occurrence of such event, Contractor and Reduction shall forthwith issue a certificate to the Government certifying such date to be the date of said completion.

ARTICLE II.

CONSTRUCTION OF ADDITIONAL FACILITIES

Contractor and Reduction shall proceed respectively without delay to construct and acquire the additional facilities for the production of said aluminum. The "additional facilities" shall consist of:

(a) "Additional aluminum reduction facilities," consisting of (i) additional facilities to be constructed by Contractor at or installed in Contractor's Corpus Christi, Texas aluminum reduction plant, now under construction, to increase the capacity of said plant from approximately seventy-five thousand (75,000) short

tons of aluminum per year to approximately eighty thousand (80,000) short tons of aluminum per year; (ii) an aluminum reduction plant and related facilities to be constructed by Reduction in the vicinity of Arkadelphia, Arkansas, having a capacity of approximately fifty-five thousand (55,000) short tons of aluminum per year; and

(b) "Additional alumina facilities," consisting of an alumina plant and related facilities to be constructed by Reduction in the vicinity of Corpus Christi, Texas, having a capacity of approximately three hundred sixty-five thousand (365,000) short tons of alumina per year.

As used in this Contract, the terms "additional facilities", "additional aluminum reduction facilities" and "additional alumina facilities" shall have the meaning set forth in this ARTICLE II.

ARTICLE III.

DISPOSITION OF PRODUCTION FROM ADDITIONAL ALUMINUM REDUCTION FACILITIES

Commencing with the date of completion of the additional facilities, and continuing until the termination or completion of this Contract, and subject to priority delivery as may be required pursuant to law, the aluminum produced at the additional facilities shall be disposed of as follows:

(a) (1) The Government may require Contractor to sell to it, at the price provided in ARTICLE XI hereof, all or any of the additional production for the initial period described in ARTICLE III(a)(2) hereof and for each consecutive six-month period during the continuance of this Contract.

(2) Contractor shall, ninety (90) days before the date it estimates the additional facilities will be completed, advise the Government of the estimated date of completion, the estimated duration of the initial period after completion and the amount of aluminum Contractor estimates it will produce from the additional facilities during the initial period after completion. The initial period shall run from the date of completion of the additional facilities to the termination date of the then current six-month period effec-

tive pursuant to subparagraphs (a) and (b) of ARTICLE III of the contract between the Government and Contractor executed July 18, 1951, as of December 19, 1950, provided that if such termination date is less than ninety (90) days after the date of completion of the additional facilities, the initial period shall extend to the termination date of the following six-month period specified in subparagraphs (a) and (b) of ARTICLE III of said contract executed July 18, 1951, as of December 19, 1950. It is recognized that, after the additional facilities are completed within the meaning of this Contract, additional time thereafter will be required to bring the aluminum reduction pots to full capacity, and that production for the initial period after completion of the additional aluminum reduction facilities may be less than the production in subsequent six-month periods. Within thirty (30) days after receipt of such notice, the Government shall notify Contractor in writing of the amount of aluminum it elects to purchase during the initial period commencing with the date of completion of the additional facilities. The notice shall be a firm order for the purchase of the quantity stated, and deliveries to the Government shall commence as soon as practicable after the date of completion of the additional facilities. Notwithstanding such estimate, Contractor shall not be obligated to deliver to the Government aluminum in excess of the amount produced at the additional aluminum reduction facilities during said period.

(3) Thereafter, at least ninety (90) days prior to the beginning of each subsequent six-month period during the continuance of this Contract and before completion thereof, the Government shall give notice in writing to Contractor of the amount of aluminum it elects to purchase from the production of the additional aluminum reduction facilities for such period. Each such notice, when given, shall be a firm order for the purchase of the quantity stated. If no notice is given within the time provided in the preceding sentence, Contractor shall be under no obligation to deliver aluminum to the Government pursuant to this ARTICLE III during the following six-month period.

(4) The Government shall in each such notice specify the amount of aluminum it desires to have comply with the National

Stock Pile Material Purchase Specification current at the time of such notice. Thereafter, Contractor shall deliver such quantities in accordance with such specification, provided that (a) Contractor shall not be required under this subparagraph (4) to deliver metal meeting a specification more burdensome than National Stock Pile Material Purchase Specification P-62 in effect at the date of this Contract, and (b) the Government may not order more than ten thousand (10,000) short tons of aluminum meeting the Stock Pile Specification in any six-month period, or proportionate amounts in longer or shorter periods.

(5) It is the intent of the parties that the Administrator will exercise the Government's right to purchase aluminum under this ARTICLE III(a) so as to purchase approximately equal percentages of the additional production produced by Contractor, by Aluminum Company of America and by Kaiser Aluminum & Chemical Corporation, respectively, under the Government's entire program of expanded aluminum production, and the Administrator agrees that, insofar as practicable, the Government will not purchase from Contractor under this ARTICLE III(a) quantities which are proportionately larger, in relation to Contractor's portion of the entire program of expanded aluminum production, than the quantities being purchased from such other companies; *provided,* that the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this subparagraph.

(6) Deliveries under all orders pursuant to this subparagraph (a) shall be made in approximately equal monthly quantities, unless a different delivery schedule is specified in the Government's notice; *provided,* however, that the Government shall not specify for delivery in any one month a quantity greater than one month's productive capacity of the additional facilities.

(b) (1) For the initial period and each consecutive six-month period thereafter referred to in subparagraph (a) above, Contractor shall offer pig, ingot or billets for sale to non-integrated users, at the price provided in ARTICLE XI hereof, in the aggregate quantity, if any, by which the amount ordered by the Government for such period, in accordance with subparagraph (a), is less than

two-thirds of the reasonably estimated additional production for such period. As used in this Contract, the term "non-integrated user" shall mean any manufacturer, fabricator, finisher or producer in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing such aluminum for his own manufacturing, fabricating, finishing or producing operations. Said offer shall be made for a period of at least thirty (30) days and shall be made by publishing a notice in "The American Metal Market" or by such other method as Contractor and the Administrator may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during a period of thirty (30) days from the date of first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least thirty (30) days prior to the beginning of the initial period and at least sixty (60) days prior to the beginning of each subsequent period.

All orders shall be subject to Contractor's acceptance, to Contractor's approval of the credit of the purchaser and to Contractor's standard terms and conditions of sale then in effect. Subject to the provisions of the foregoing sentence, Contractor shall accept on a first-come first-served basis sufficient orders from non-integrated users to equal the quantity thus offered for sale, as above provided. Thereafter, and following expiration of the above period of thirty (30) days from the date of first publication of the notice in the event the quantity thus offered for sale is not fully purchased during said period, Contractor shall have no obligation to accept any further orders from non-integrated users for the period. Nothing herein shall prohibit Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other non-integrated users for such period. Contractor may discontinue publication of the notice in the event Contractor has accepted prior to the expiration of the two weeks publication period sufficient orders from non-integrated users to equal the quantity offered for sale as hereinabove provided. If, pursuant to the terms of this ARTICLE, the amount of aluminum which Contractor is obligated to offer for sale to such non-integrated users is zero, then Con-

tractor need not publish the notice or make the offer to non-integrated users referred to above. Nothing in this paragraph (b) of ARTICLE III is intended to affect or prejudice the Contractor's privilege first to sell or offer for sale to industry aluminum produced from its other facilities.

It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(2) It is recognized that Contractor has made and intends in the future to make contracts with such of its customers who are non-integrated users for the delivery of aluminum pig, ingots and billets which may be produced from the additional aluminum reduction facilities. The maximum quantity of aluminum which Contractor may be obligated to deliver pursuant to such commitments for any applicable period may be deducted from the quantity which Contractor is obligated to make available to other non-integrated users for such period under this subparagraph (b), provided that Contractor may not so deduct any quantities to be delivered pursuant to any contract which requires Contractor to deliver in excess of Five Hundred Thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Administrator. The Administrator shall be deemed to have approved any such contract unless he disapproves the same and so notifies Contractor in writing within fifteen (15) days after written notice has been received by him of the terms of such contract. Any quantity so deducted by Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such period, shall be added to the quantity which Contractor is obligated to offer to non-integrated users during the subsequent period.

(3) If, after receiving the notice from the Government of the amount of aluminum it elects to purchase as provided in subparagraph (a) hereof, Contractor finds that the quantity ordered by the Government for any such period is such that it may be impossible for Contractor to fulfill its prior commitments to such other customers as are non-integrated users, Contractor may advise the Administrator of such fact. The Administrator shall thereupon review the quantity ordered by the Government and if under all of the circumstances the Administrator considers it advisable, he may reduce the quantity ordered by the Government.

(c) Any quantity of additional production from the additional aluminum reduction facilities not disposed of in accordance with this ARTICLE III, and not otherwise sold or utilized by Contractor, may be tendered to the Government, in the form of pig only:

(1) during the period commencing with the date of completion of the additional facilities and terminating on the termination date of the then current twelve (12) month period effective pursuant to subparagraph (c) of ARTICLE III of the contract between the Government and Contractor, executed July 18, 1951, as of December 19, 1950, provided that if such termination date is less than ninety (90) days after the date of completion of the additional facilities, such period shall extend to the termination date of the following twelve (12) month period, effective pursuant to subparagraph (c) of ARTICLE III of said contract executed July 18, 1951, as of December 19, 1950, and

(2) during each subsequent consecutive twelve (12) month period.

Such tender, or tenders, shall be made during the first ten (10) days of any calendar month during any such period and during the first ten (10) days following the expiration of such period, and all such tenders shall be considered to be applicable to such period. The Government shall purchase the amount so tendered at the price specified in ARTICLE XI. The Government shall not be required to buy under this subparagraph (c) for any period

specified in this subparagraph (c) more than the actual output of the additional aluminum reduction facilities during such period, less the quantity of such additional production disposed of in accordance with this ARTICLE III and otherwise sold or utilized by Contractor, provided, that under such computations the Contractor's right of substitution under paragraph (b) of ARTICLE VI is recognized.

(d) In no event, except as provided in ARTICLE VII and ARTICLE IX, shall the Government be obligated to order or to purchase, or Contractor be obligated to accept orders from either the Government or non-integrated users for an amount of aluminum which, added to the prior production and sale or utilization by Contractor of aluminum from the additional aluminum reduction facilities after the date of completion of the additional facilities, exceeds Three Hundred Thousand (300,000) short tons.

ARTICLE IV.

SALE OF PRODUCTION BEFORE COMPLETION OF ADDITIONAL FACILITIES

The Government may require the sale to it of all or any part of the aluminum produced from the additional aluminum reduction facilities from the date of the beginning of commercial production and prior to the date of completion of the additional facilities. Such sale shall be at the price provided in ARTICLE XI hereof. When Contractor is reasonably able to do so, and between ninety (90) days and sixty (60) days before the date Contractor estimates commercial production will begin, it shall advise the Government of the time when it estimates that aluminum will first be commercially produced at the additional aluminum reduction facilities and of the quantity which it estimates will be produced from such time until the date of completion of the additional facilities. Between sixty (60) days and thirty (30) days prior to the estimated date when aluminum will first be commercially produced, the Government shall notify Contractor in writing of the amount of such metal it desires to purchase, which notice shall be a firm order by the Government to purchase the quantity of aluminum specified

therein at the price and upon the terms and conditions herein set forth, for the sale of aluminum to the Government after completion of the additional facilities, except that during such period Contractor shall not be required to deliver any aluminum of stockpile specifications beyond Contractor's reasonable ability to do so during said period, or any aluminum in an amount exceeding the production of the additional aluminum reduction facilities. Contractor shall offer in pig, ingot or billet form for sale to non-integrated users, at the price provided in ARTICLE XI hereof, the quantity, if any, by which the amount ordered by the Government for said period is less than two-thirds of the estimated production from the additional aluminum reduction facilities for such period, subject to the terms and conditions of ARTICLE III(b). Any quantity of aluminum produced during this period shall not reduce the quantities otherwise specified in this Contract, and specifically shall not be included as a portion of the Three Hundred Thousand (300,000) tons specified in ARTICLE I.

ARTICLE V.

PAYMENT FOR ALUMINUM DELIVERED TO THE GOVERNMENT

Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

ARTICLE VI.

RELATIONSHIP OF ADDITIONAL TO EXISTING FACILITIES

(a) It is the intention of this Contract that the Government, by agreeing to purchase aluminum from the additional aluminum reduction facilities as herein provided, guarantees the disposition of the entire output of the additional aluminum reduction facilities to the extent of the Three Hundred Thousand (300,000) ton quantity specified in ARTICLE I, subject to the rights of termination of Contractor and Reduction as provided in ARTICLE XI (b) and ARTICLE XIII. In this connection, it is recognized that Contractor now has other aluminum reduction facilities (including those completed and presently under con-

struction pursuant to the contract executed by the Government and Contractor on July 18, 1951, as of December 19, 1950), and may in the future acquire further aluminum reduction facilities other than those to be constructed under this Contract. It is understood that, except as to orders from the Government expressly placed pursuant to this Contract for aluminum to be produced at the additional aluminum reduction facilities to be constructed under this Contract, Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such other facilities, before disposing of or utilizing aluminum from the additional aluminum reduction facilities, and that, in accordance with ARTICLE III(c), the Government will purchase from Contractor all of the production of the additional aluminum reduction facilities not otherwise disposed of or utilized by Contractor. The Government does not, by this Contract, guarantee or agree to purchase production from other facilities.

(b) Without affecting the rights and duties of the parties as set forth in the preceding subparagraph, deliveries to the Government and to non-integrated users pursuant to ARTICLES III, IV, VII and IX of this Contract may, at Contractor's option, be made by substituting aluminum produced from other facilities for aluminum actually produced at the additional aluminum reduction facilities. In such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

(c) In the event that it becomes an economic burden for Contractor to continue to operate some or all of the additional facilities, as well as its existing facilities, Contractor may petition the Administrator, setting forth all of the facts and asking for the privilege of closing down all or any portion of the additional facilities that it considers uneconomic and of delivering from other facilities the aluminum to be delivered to the Government or the non-integrated users hereunder. Upon receipt of such petition, the Administrator shall give careful and due consideration to such request and grant such relief, if any, as he considers equitable to Contractor, on such terms and conditions as he may determine.

(d) Except as provided in paragraphs (b) and (c) of this ARTICLE VI nothing in this Contract is intended to control the sale or use by Contractor of aluminum produced from facilities other than the addi-

tional aluminum reduction facilities provided for hereunder or to direct the manner or extent of such sale or use.

ARTICLE VII.

Sale of Aluminum to Non-Integrated Users for Fifteen Years

As an inducement to the Government to enter into this Contract, and as part of the consideration of this Contract, Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in Article I or from and after the effective date of termination by Contractor pursuant to Article XI(b) hereof, or until any loan guaranteed by the Government is fully repaid, whichever shall be the longer, (but not beyond the effective date of the exercise by the Government of its option to purchase the additional aluminum reduction facilities pursuant to Article XV hereof), Contractor will each year make available for sale to non-integrated users, on a non-preferential basis under credit conditions as to each purchaser satisfactory to Contractor, at Contractor's lowest published market price for the grade of aluminum involved as of date of delivery, and on Contractor's current standard terms and conditions of sale at time of purchase, a quantity of aluminum equal to twenty-five (25) per cent of the annual capacity of the additional aluminum reduction facilities, *provided*, however, that the obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of Contractor's production year, make firm purchase commitments with Contractor for specified quantities for such production year. In the event Contractor for any year receives orders in excess of such twenty-five (25) per cent, nothing herein shall prohibit Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this Article VII. Nothing contained in this Article VII shall require Contractor to operate the additional aluminum reduction facilities after the full period of performance specified in Article I, but Contractor shall be obligated to make available a quantity equal to twenty-five (25) per cent of the capacity of such additional aluminum reduction facilities whether or not such facilities are actually operated. It

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is understood and agreed that (1) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (2) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VIII.

TERMINATION

(a) The termination of this Contract by Contractor, as provided in paragraph (b) of ARTICLE XI, shall not have the effect of cancelling or terminating any order placed by the Government for aluminum pursuant to paragraph (a) of ARTICLE III or any tenders made by Contractor to the Government pursuant to paragraph (c) of ARTICLE III before the effective date of termination, to the extent that such aluminum has been produced prior to such effective date of termination.

(b) If Reduction, or an assignee or assignees under assignments pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, as hereafter in subparagraph (b)(1) of this ARTICLE VIII permitted, at any time after such termination and before the cost of the aluminum reduction plant and related facilities to be constructed in the vicinity of Arkadelphia, Arkansas and the alumina plant and related facilities to be constructed in the vicinity of Corpus Christi, Texas has been completely amortized, depreciated, or otherwise deducted for Federal income tax purposes, certifies to the Administrator that with respect to either or both said facilities the cost of which has not been completely so amortized, depreciated or otherwise deducted, the taking of the sixty (60) month amortization deduction authorized by Section 124A of the Internal Revenue Code has been discontinued, and that election is made to receive a termination payment:

(1) Thereupon with respect to the aforesaid additional facilities there shall become due and payable from the Government to Reduction

a termination payment equal to the adjusted basis, as computed for amortization purposes for Federal income tax purposes, pursuant to the provisions of Section 124A(e) of the Internal Revenue Code, of either or both such facilities as of the beginning of the month in which such notice of election is given. Reduction shall have the right to assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institutions, including any Federal lending agency, as security for any loans obtained to construct the additional facilities, its right under the provisions of this ARTICLE VIII to receive such termination payment, in which event such termination payment to be made to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained to construct the additional facilities. The election to discontinue the taking of the sixty (60) month amortization deduction as to either of said facilities need not be made simultaneously but may be made at any time as to either facility until the cost of such facility has been amortized to the extent of the adjusted basis thereof for amortization purposes as defined by Section 124A(e) of the Internal Revenue Code. It is the intent hereof that any termination payment which may be made pursuant to the provisions of this subparagraph will be compensation for the unamortized cost of an emergency facility because a contract with the United States involving the use of the facility has been terminated by its terms or by cancellation as provided in Section 124A(g) of the Internal Revenue Code, as amended by Section 216 of the Revenue Act of 1950, and the Administrator agrees to recommend to the certifying authority specified in Section 124A(g) that such authority so certify.

(2) If Reduction receives a termination payment with respect to the aluminum reduction plant and related facilities at Arkadelphia, Arkansas pursuant to subparagraph (b)(1) of this ARTICLE, Reduction shall pay or cause to be paid to the Government a production charge as hereinafter specified on each ton of aluminum produced from such additional aluminum reduction facilities after the receipt of such payment and sold or utilized. If Reduction receives a termination payment with respect to the additional alumina facilities pursuant to subparagraph (b)(1) of this ARTICLE, Reduction shall pay or cause to be

paid to the Government a production charge as hereinafter specified on each ton of alumina produced from the additional alumina facilities after the receipt of such payment and sold or utilized. Said production charges shall be paid by or in behalf of Reduction regardless of whether Reduction shall or shall not at any particular time or times, or from time to time, own or occupy the additional facilities, and regardless of whether, at any particular time or times, or from time to time, the operation of said additional facilities or the production of aluminum or alumina therefrom is effected by Reduction or by some entity other than Reduction; provided, however, that no production charge shall be payable with respect to the aluminum reduction plant and related facilities to be constructed in the vicinity of Arkadelphia, Arkansas, if or after the Government purchases said plant and facilities under the provisions of ARTICLE XV of this Contract; and provided further, that no production charge shall be payable with respect to the additional alumina facilities if or after the Government purchases such additional alumina facilities under the provisions of ARTICLE XV of this Contract.

The production charge per ton of aluminum with respect to said additional aluminum reduction facilities to be constructed in the vicinity of Arkadelphia, Arkansas, shall be seventy-five per cent (75%) of an amount determined by dividing (a) the number of tons obtained by subtracting from two hundred seventy-five thousand (275,000) tons of aluminum the number of tons of aluminum actually produced from said additional aluminum reduction facilities pursuant to this contract from the date of completion of said additional facilities to the termination date into (b) the adjusted basis, as of the termination date, for amortization purposes, as computed for Federal income tax purposes pursuant to the provisions of Section 124A(e) of the Internal Revenue Code, of such facility with respect to which the termination payment was received.

The production charge per ton of alumina with respect to the additional alumina facilities shall be twenty-five per cent (25%) of an amount determined by dividing (a) twice the number of tons obtained by subtracting from two hundred seventy-five thousand (275,000) tons of aluminum the number of tons of aluminum actually produced from said additional aluminum reduction facilities pursuant to this Contract from the date of completion of said additional facilities to the termina-

tion date into (b) the adjusted basis, as of the termination date, for amortization purposes, as computed for Federal income tax purposes pursuant to the provisions of Section 124A(e) of the Internal Revenue Code of such additional alumina facilities.

Any production charge payable by Reduction with respect to said additional aluminum reduction facilities shall be paid either (a) until the expiration of fifteen (15) years from the receipt of the termination payment (and in such event shall also be paid on all aluminum produced from said additional aluminum reduction facilities but not yet sold or utilized at the expiration of such fifteen-year period), or (b) until the total of such production charges paid equals the amount of the termination payment made with respect to said facilities, whichever first occurs. After the occurrence of either said event, there shall be no further obligation to pay such production charge in respect of said facilities.

Any production charge payable by Reduction with respect to the additional alumina facilities shall be paid either (a) until the expiration of fifteen (15) years from the receipt of the termination payment, (and in such event shall also be paid on all alumina produced from the additional alumina facilities but not yet sold or utilized at the expiration of such fifteen-year period), or (b) until the total of such production charges paid equals the amount of the termination payment made with respect to the additional alumina facilities, whichever first occurs. After the occurrence of either said event, Reduction shall be under no further obligation to pay such production charges in respect of the additional alumina facilities.

(3) Within ninety (90) days after the end of each month after the date of the receipt of any termination payment and until the obligation to pay all production charges has expired, Reduction shall furnish to the Government a certified statement of the number of tons, if any, of aluminum and alumina produced from the additional facilities and sold or utilized during such monthly period and shall, with such certificate, pay to the Government the amount of production charges due for such period.

(4) Reduction may, at its option, pay any production charge in advance, but shall in no event be required to pay any production charges except for aluminum and alumina actually produced from the

additional facilities and sold or utilized (including aluminum and alumina produced from the additional facilities but not yet sold or utilized at the expiration of such fifteen-year (15) period).

(5) If the rate of such production charges, as calculated above, shall become an undue economic burden to Reduction and Reduction shall so demonstrate to the satisfaction of the Administrator, then the Administrator shall grant such reduction in such rate and such extension of the period during which such reduced rate shall be payable upon actual production and sale or utilization, as he may deem appropriate.

(6) In the event of termination of this contract by Contractor as provided in subparagraph (b) of ARTICLE XI, the sole right and remedy of Contractor and Reduction, either at law or equity, shall be for Reduction to receive a termination payment or payments, under the circumstances and subject to the terms and conditions set forth in this ARTICLE.

(c) If the sixty (60) month amortization deduction authorized by Section 124A of the Internal Revenue Code with respect to all of the additional facilities is continued until the expiration of the sixty (60) month period, then the Government shall not be obligated to make any termination payment to Reduction, provided that Reduction may elect to discontinue taking the sixty (60) month amortization deduction as to any of the additional facilities at any time after termination and prior to the expiration of such sixty (60) month period, and upon so doing, will be entitled to such termination payments as hereinbefore provided.

(d) Nothing in this contract is intended to limit or curtail the statutory right to discontinue amortization deductions under Section 124A of the said Code at any time, provided, however, that the exercise of such right shall not increase the amount of the termination payment or payments otherwise payable under this ARTICLE had election not to exercise such right been made nor extend the time within which election may be made to take or request any termination payment provided for in this ARTICLE. Whether amortization deductions under said Section 124A with respect to any of the additional facilities or any part thereof are or are not being taken, or have or have not been taken, the termination payment or payments with respect thereto shall be computed as

if such amortization deductions had been or were being taken. In any event, the limit of the Government's obligation to make any termination payment with respect to any facility shall not exceed eighty-five per cent (85%) of the cost of such facility for Federal income tax purposes less an amount equal to one-sixtieth (1/60th) of eighty-five per cent (85%) of such cost for each month following the month in which such facility was completed, up to and including the month preceding the month as of which the termination payment becomes due and payable.

(e) In consideration of Contractor's acceptance of this contract, the Government agrees that it shall have no right to, and will not, terminate the contract between the United States and Contractor dated July 18, 1951, effective as of December 19, 1950, for the production and sale of Five Hundred Thousand (500,000) tons of aluminum, at any time when there is then in effect a contract or contracts between the Government and any suppliers of aluminum for importation into the United States from any foreign country of aluminum pig or ingot, providing for deliveries aggregating more than Ten Thousand (10,000) tons per year, except a contract or contracts entered into pursuant to the Economic Cooperation Act of 1948, as amended, for relief or rehabilitation.

ARTICLE IX.

Obligation to Sell While Reduction's Obligation to Make Production Payments Continues

While Reduction's obligation to make production charge payments to the Government pursuant to Article VIII continues with respect to the additional aluminum reduction facilities, Contractor and Reduction each agree, to the extent that either actually produces aluminum at such additional aluminum reduction facilities, to make available aluminum produced at such facilities for sale to the Government, in the manner and subject to the conditions provided in Article III(a), and to non-integrated users, in the manner and subject to the conditions provided in Article III(b), at Contractor's lowest published market price at date of delivery, and on Contractor's current standard terms and conditions of sale in effect at time of purchase, provided that Contractor's obligation to sell aluminum to the Govern-

ment and to non-integrated users during any period pursuant to this ARTICLE IX shall not exceed twenty-five per cent (25%) of the production of the additional aluminum reduction facilities for such period.

ARTICLE X.

CONTRACTOR'S GUARANTY OF COMPLETION OF ADDITIONAL FACILITIES TO BE CONSTRUCTED BY REDUCTION

Contractor guarantees the completion of the additional facilities to be constructed by Reduction, described in ARTICLE II(a)(ii) and (b) of this Contract, with funds made available to it by Reduction from the proceeds of a loan secured by a Mortgage and Deed of Trust dated as of April 1, 1952 between Reduction and Manufacturers Trust Company and A. F. Keuthen, as Trustees, and if such funds so made available to it are not sufficient then with its own funds up to but not in excess of $3,000,000, and if the aggregate of such amounts is not sufficient then with funds which may be made available to it by Reduction from any additional loans for the purpose of completing such facilities if obtained from private sources by Reduction, or if Reduction is unable to obtain additional loans in an amount or amounts sufficient for such purpose from private sources, from funds for such purpose if obtained from the Government by Reduction.

Reduction agrees to seek diligently to obtain such additional loan or loans from private sources in an amount or amounts, up to but not exceeding $7,000,000, for the purpose of completing said additional facilities; and if Reduction is unable to obtain such loan or loans it agrees to accept from the Government, and the Government agrees to make available to Reduction, sufficient funds up to but not exceeding $7,000,000 for such purpose, upon terms, in addition to those set forth in the next following paragraph, reasonably acceptable to the Government and Reduction, and Reduction agrees to make such funds available to Contractor.

If Reduction obtains such funds from the Government for the purpose of completing such facilities, such funds shall bear interest at the rate of 4% per annum compounded annually. Such interest shall be accumulated to the first day of January of the calendar year following the calendar year in which full payment shall take place of the Bonds secured by Mortgage and Deed of Trust dated as of January 1,

1951 from Reynolds Metals Company to Bank of America National Trust and Savings Association and W. C. Koenig, as Trustees, and the Bonds and Notes secured by a Mortgage and Deed of Trust dated as of April 1, 1952 from Reduction to Manufacturers Trust Company and A. F. Keuthen, as Trustees, but not later than January 1, 1969, and added to the principal amount of the funds and such aggregate amount shall become payable in five equal annual installments commencing the first day of January of the calendar year following the calendar year in which such Bonds and such Bonds and Notes shall have been paid in full, or January 1, 1969, as the case may be, with interest at the rate of 4% per annum, with the privilege to Reduction of prepayment in whole or in part.

If such funds are obtained from the Government by Reduction, Contractor agrees that it will not without the consent of the Administrator thereafter pay any dividend on its common stock until such funds are repaid in full with interest thereon, and that on May 31st of the second calendar year following the calendar year in which such funds are obtained and on May 31st of each calendar year thereafter until such funds are repaid in full with interest thereon, it will pay for and on account of Reduction an amount equal to the increase for the preceding calendar year in the sum available for Restricted Payments as defined in the Finance Agreement among Reynolds Metals Company, Reynolds Reduction Company and Manufacturers Trust Company, as Trustee, dated as of April 1, 1952 and in the Mortgage and Deed of Trust dated as of January 1, 1951 from Reynolds Metals Company to Bank of America National Trust and Savings Association and W. C. Koenig, as Trustees. Contractor may substitute for the provision just hereinabove set forth its unconditional guaranty of repayment of such funds obtained from the Government by Reduction.

ARTICLE XI.

SALES PRICE OF ALUMINUM; CONTRACTOR'S RIGHT OF TERMINATION

(a) The price at which aluminum pig, ingot and billets shall be sold to non-integrated users in accordance with ARTICLE III (b) and ARTICLE IV shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the terms and conditions applicable thereto).

The price at which aluminum pig, ingot and billets shall be sold to the Government in accordance with ARTICLE III(a) and (c) and ARTICLE IV shall be Contractor's lowest published price for the grade involved (including the terms and conditions applicable thereto) in effect at the time of delivery, *provided,* however, that if at the time of delivery the current published market price of either Aluminum Company of America or Kaiser Aluminum and Chemical Corporation is lower than Contractor's published price, the price to the Government shall be the lower of: (i) the weighted average (as defined below) of the lowest current market prices so published of the three present producers averaged during the ninety (90) days preceding the date of delivery; or (ii) Contractor's lowest published price in effect at the time of delivery for the corresponding grade of aluminum.

The weighted average shall be computed on the basis of the existing primary aluminum capacities of the three present producers which for the purposes of this clause shall conclusively be deemed to be Reynolds Metals Company, thirty per cent (30%); Aluminum Company of America, forty-five per cent (45%); and Kaiser Aluminum and Chemical Corporation, twenty-five per cent (25%).

Contractor shall invoice the Government at its said published market price in effect at the time of delivery and grant any credits required by the above formula in Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

(b) In the event that price controls are placed upon aluminum by the Government which result in Contractor's inability to earn a reasonable profit from the operation of the additional facilities and, after reasonable efforts, Contractor is unable to obtain relief from such price controls to the extent that such price controls cause such inability, then Contractor shall have the right to terminate this Contract. Such termination shall become effective thirty (30) days after receipt of written notice thereof delivered by Contractor to the Administrator, and upon such termination the provisions of ARTICLE VIII shall apply. Reduction shall have the right to assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained to construct the additional facilities, its right under the provisions of ARTICLE VIII

to receive a termination payment, in which event such termination payment to be made to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained to construct the additional facilities. For the purpose of this paragraph (b) it is the understanding of the parties that (1) the profit from the operation of the additional facilities shall be determined as if Contractor and Reduction were one entity; (2) in determining such profit, the amount of accelerated amortization in excess of normal depreciation shall not be included in computing the cost of production; and (3) Contractor's profit existing at the effective date of this Contract is a reasonable profit.

(c) In the event that the price control authorities grant relief to Contractor in accordance with paragraph (b) above, with respect to Contractor's prices on sale to the Government or to non-integrated users, or both, pursuant to this Contract, then the prices authorized by such relief shall apply to such sales under this Contract during the effective period of such relief, and upon the termination of such relief, the price provisions otherwise specified in this Contract again shall govern.

ARTICLE XII.

Force Majeure

(a) The time for performance by Contractor and Reduction of their respective obligations under the provisions of this Contract relating to the construction of the additional facilities, to the production and delivery of aluminum from the additional aluminum reduction facilities, or to the operation of such additional facilities, shall be extended at the option of Contractor or Reduction, as the case may be, and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions or cessations occasioned by force majeure (herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of Contractor or Reduction, including without limitation acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, and priority or allocation requirements or other acts of the Federal Government); *provided*, that within thirty (30) days after Contractor or Reduction

determines that in its judgment a particular force majeure occurrence may result in a major delay in the performance of this Contract, Contractor or Reduction shall give to the Administrator written notice thereof, together with a statement setting forth the facts evidencing force majeure, and at the conclusion of the duration of each such force majeure, Contractor or Reduction shall, within thirty (30) days thereafter, give to the Government written notice of the termination of such force majeure.

(b) In the event that any occurrence of force majeure resulting from priority or allocation requirements or other acts of the Federal Government prevents the date of completion of the additional aluminum reduction facilities from occurring by or before January 1, 1954, Contractor may, at any time thereafter, by written notice delivered to the Administrator, elect to proceed with the performance of this Contract as if such date of completion had occurred. In the event of such election, the provisions of this Contract which are expressly dependent upon the occurrence of such date of completion, including without limitation ARTICLE III hereof, shall become effective as if the date of completion of construction had occurred upon the date of receipt of such notice by the Administrator, *provided,* that without affecting the total amount of aluminum which the Government is obligated to buy and Contractor is obligated to sell hereunder, the amount of aluminum which it shall be the duty of the Government to buy and the duty of Contractor to sell to the Government and to non-integrated users hereunder in each subsequent period specified in and under the conditions of ARTICLE III shall be limited to the actual capacity of the additional aluminum reduction facilities during such period which is specified in the applicable subparagraph of ARTICLE III; and *further provided,* that the provisions of this subparagraph (b) shall not relieve Contractor or Reduction from their respective obligations to complete the construction and operation of the additional facilities except during the period or periods when such action is prevented by conditions of force majeure.

ARTICLE XIII.

TERMINATION FOR CAUSE

If Contractor or Reduction despite due diligence does not obtain all priorities and allocations necessary for the purchase and delivery of equipment, supplies, materials, and services of any nature

required for the completion or placing into operation of the additional facilities, and the inability to obtain such priorities and allocations substantially interferes with the completion or placing into operation of the additional facilities for a consecutive period of one hundred eighty (180) days, or such further period as may hereafter be mutually agreed upon, then Contractor or Reduction may terminate this Contract on the terms provided in ARTICLE XIV hereof.

ARTICLE XIV.

CONSEQUENCES OF TERMINATION FOR CAUSE

In the event this Contract is terminated pursuant to ARTICLE XIII, termination shall become effective thirty (30) days after receipt of notice delivered by Contractor or Reduction to the Administrator, and upon such termination the following provisions shall apply:

With respect to each contract or commitment theretofore made by Contractor or Reduction and relating to the facilities described in subparagraph (a)(ii) and subparagraph (b) of ARTICLE II (including, without limitation, contracts and commitments for utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services), the Government shall reimburse Contractor and Reduction for all expenditures actually made thereunder up to the date of termination. All amounts payable by the Government pursuant to this ARTICLE either to Contractor or Reduction shall be paid to Reduction and Reduction shall have the right to assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained to construct the facilities above referred to, its right under the provisions of this ARTICLE XIV to receive all such payments in which event such payments to be paid to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained to construct the facilities above referred to. The Government shall, at its option, either (i) require the assignment by Contractor or Reduction to the Government of such contract or commitment and assume all obligations thereunder, or (ii) direct

Contractor or Reduction to cancel or settle such contract or commitment and reimburse Contractor or Reduction for its expenditures in effecting such cancellation and settlement. Contractor and Reduction shall thereupon, at the request of the Government, transfer and deliver to the Government any or all real and personal property obtained as a result of such expenditures and not previously consumed. Contracts and commitments within the meaning of this ARTICLE XIV shall be deemed to include, without limitation, any utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services relating to the facilities above referred to supplied or to be supplied or performed or to be performed by Reduction itself or by Contractor. Contractor or Reduction shall be entitled to exclude from the provisions of this ARTICLE all contracts and commitments relating to the facilities described in subparagraph (b) of ARTICLE II, by delivering written notice of such election to the Administrator, and in such event neither Contractor nor Reduction shall be entitled to reimbursement for expenditures made and shall not be required to transfer or deliver to the Government any real or personal property obtained by either as a result of expenditures pursuant to such excluded contracts or commitments.

ARTICLE XV.

GOVERNMENT PURCHASE OPTION

(a) If (1) this Contract has been terminated pursuant to ARTICLE XI(b), and (2) Reduction is obligated to make production payments to the Government pursuant to ARTICLE VIII, and (3) at the time notice of exercise of the option by the Government hereinafter referred to is given, the additional aluminum reduction facilities or the additional alumina facilities, as such facilities are defined in ARTICLE II, including all additions, renewals and improvements thereof and thereto but excluding the additional facilities to be constructed at or installed in Contractor's Corpus Christi, Texas, aluminum reduction plant, are and have been substantially idle for a continuous period of at least one (1) year immediately prior to the receipt of such notice (but not including in the computation of such period any time during which conditions of force majeure, as defined in ARTICLE XII, exist or such period of relief as may be granted by the Administrator pursuant to paragraph (c) of ARTICLE VI) then the Government shall have the

option to purchase from Reduction the additional aluminum reduction facilities, exclusive of the additional facilities to be constructed at or installed in Contractor's Corpus Christi, Texas aluminum reduction plant, and the additional alumina facilities, or either, if only that one had been idle for the period heretofore stated, at a price calculated as set forth below. The Government's option shall be exercised by delivering a written notice to Contractor and Reduction of its election to exercise such option, stating the date it shall become effective, which date shall not be less than ninety (90) days from the date of its receipt.

(b) If Contractor or Reduction, in good faith, before the effective date of the option, places the additional aluminum reduction facilities subject to option or the additional alumina facilities, or both, as the case may be, in substantial operation, then the Government's exercise of its option to purchase shall become without effect, but the Government shall thereafter have the option to purchase the said facilities if, at a later date, all of the conditions set forth in subparagraph (a) of this ARTICLE recur, subject to the same terms and conditions of subparagraphs (a) and (b) of this ARTICLE XV.

(c) For the purpose of subparagraphs (a) and (b) above, the additional aluminum reduction facilities subject to option shall be deemed to be substantially idle unless facilities capable of producing thirty-five million (35,000,000) pounds of aluminum per year are in operation, and the additional alumina facilities shall be deemed to be substantially idle unless they are producing at a rate of at least one hundred eighty (180) tons a day; and substantial operation of the additional aluminum reduction facilities subject to option shall consist of the operation of facilities capable of producing at least thirty-five million (35,000,000) pounds of aluminum per year and substantial operation of the additional alumina facilities shall consist of production at the rate of at least one hundred eighty (180) tons a day.

(d) The purchase price for the additional aluminum reduction facilities, exclusive of the facilities to be constructed at or installed in Contractor's Corpus Christi, Texas aluminum reduction plant, or the additional alumina facilities, or both, as the case may be, shall be such amount as shall fully reimburse Reduction for the entire cost of the facilities to be purchased after deducting from such cost the profit

or adding thereto the loss, as the case may be, resulting from the operation and maintenance of said facilities by Contractor or Reduction or both from the date of their initial operation to the effective date of the exercise of the option.

In computing the purchase price, the following adjustments shall be made and the principles herein stated shall be followed:

1. There shall be deducted from the cost of the additional aluminum reduction facilities subject to option or the additional alumina facilities, or both, as the case may be, the amount of termination payments paid by the Government to Reduction on account of said facilities to be purchased, less production charges paid by or in behalf of Reduction on account of said facilities.

2. In determining profit or loss: (i) Contractor and Reduction shall be considered as if they were one entity; (ii) Amortization and depreciation of said facilities to be purchased which has actually been taken shall be subtracted from the cost of operations; (iii) The cost of operations shall include all costs of starting up, shutting down and of maintaining said facilities purchased in standby condition, including all standby charges as well as all costs of cancelling commitments resulting from shutdowns and all interest accrued or paid by Contractor and Reduction on borrowed money attributable to the construction or operation of the additional facilities; (iv) The costs of operation shall include a charge for alumina (in the operation of the additional aluminum reduction facilities subject to option) and any other materials furnished by Contractor or Reduction for operation of said facilities at fair market prices but not less than Contractor's or Reduction's cost of furnishing same (including applicable depreciation and depletion at normal rates) plus a reasonable profit, provided, however, that if such alumina or other materials were purchased by Contractor or Reduction from a wholly-owned subsidiary of Contractor, the charge to be included shall be at fair market value, but not less than such subsidiary's cost of furnishing the same (including depreciation and depletion at normal rates) plus a reasonable profit, with the further qualification that such computation of costs and profits shall not be more than such subsidiary was currently charging others for the same materials;

(v) There shall be deducted from the profit of each year, or added to the loss of each year of operating said facilities, a pro rata share of the general administrative and selling expenses, and said expenses shall be prorated in the proportion which the net sales and the value of intracompany and intercompany transfers of products produced by the additional facilities bear to the total net sales and the value of intracompany and intercompany transfers of Contractor and its wholly-owned subsidiaries for such year, provided that in the computation of the foregoing net sales and the intracompany and intercompany transfers there shall be no duplication. In calculating the foregoing proportion with respect to selling expenses, sales to the Government under this Contract shall be excluded; (vi) Any intracompany or intercompany sales or transfers shall be deemed to have been made at Contractor's current market prices.

3. Contractor's profit or loss in the fabrication of any aluminum produced at the additional aluminum reduction facilities shall be excluded from all computations of the purchase price of said facilities, it being understood that neither the profit nor loss resulting from the operation of any of Contractor's facilities, other than those being purchased by the Government pursuant to this option, is to be taken into account in determination of the purchase price.

4. There shall be deducted from such purchase price any tax benefit which may be realized by Contractor and any tax benefit which may be realized by Reduction as a result of the deduction by Contractor or Reduction, respectively, of any net operating loss attributable to the additional facilities purchased (computed with the deduction of depreciation or amortization pursuant to the provisions of Section 124A of the Internal Revenue Code as actually allowed for the purposes of computing Federal income and excess profits tax liabilities) from net income from other operations.

5. It is the intent of the parties that Reduction shall be fully reimbursed for all of its and Contractor's expenditures as hereinabove defined for the construction (including financing costs), acquisition, maintenance, operation and shutdown of the addi-

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tional facilities purchased, without profit or loss (excluding profit or loss from the production of raw materials and the fabrication of aluminum). If payment of said purchase price to Reduction does not so reimburse Reduction because of taxes payable, then the purchase price shall be adjusted so that Reduction is so reimbursed without profit or loss as if Reduction had never owned and neither Contractor nor Reduction had ever operated the additional facilities purchased.

(e) As promptly as possible after the receipt of notice of the exercise of the option, the parties shall compute and agree upon the purchase price. Upon the effective date of the option, Reduction shall execute and deliver to the Government a deed to all of said property. Both Contractor and Reduction shall be obligated to convey all such interest in said property as they, or either of them, or any subsidiary or subsidiaries of either of them, hold at the time they receive the notice from the Government exercising the option, and the property shall be conveyed free and clear of all liens and encumbrances for indebtedness incurred by them, or either of them, or by any subsidiary or subsidiaries of either of them, with the exception of any lien or encumbrance held by the Government. At the same time Contractor and Reduction shall assign and transfer to the Government such contracts relating to the operation of the additional facilities to be purchased as each of them has the right to assign and transfer and upon such assignment and transfer the Government shall assume all obligations for the further performance thereof. The purchase price shall become due and payable upon delivery of the deed to the Government and if the parties have not agreed upon the purchase price then the Government shall pay to Reduction the amount the Government shall have computed as the purchase price without prejudice to the right of Reduction to negotiate further with the Government in an effort to arrive at a purchase price satisfactory to Reduction and failing that without prejudice to whatever rights Reduction may have to proceed in the Court of Claims to recover such an amount which when added to the amount which has heretofore been paid shall in the judgment of the Court of Claims represent the appropriate purchase price computed under the provisions of this ARTICLE XV. In any such action in the Court of Claims

the determination of an appropriate purchase price computed under the provisions of this ARTICLE XV shall be de novo, and any prior calculation or calculations by either party of any item or items entering into the computation of the purchase price theretofore paid to Reduction, shall be without prejudice to either party in such action.

Reduction shall have the right to assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained to construct the additional facilities, its right under the provisions of this ARTICLE XV to receive such purchase price, in which event such purchase price to be paid to the assignee shall not be subject to reduction or set-off. Such assignment shall not be made to more than one party, except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any loans obtained to construct the additional facilities.

ARTICLE XVI.

ADMINISTRATOR AND GENERAL SERVICES ADMINISTRATION

As used herein, the term "Administrator" means the Administrator of General Services and his successors in function, and the term "General Services Administration" means the General Services Administration, United States Government, and said Administration's successors in function.

ARTICLE XVII.

SALES THROUGH SUBSIDIARY

It is understood that Contractor may determine to conduct its sales of aluminum through a sales subsidiary corporation or corporations and that in such event, for the purposes of this Contract, the published prices of such subsidiary sales corporation or corporations or of Contractor, whichever shall be lower, shall be deemed the published prices of Contractor, and sales by such sales subsidiary corporation or corporations shall be considered the sales of Contractor.

ARTICLE XVIII.

Delivery of Ingot and Billets

It is understood that Contractor and Reduction may install equipment at the additional aluminum reduction facilities for the conversion of a portion of the capacity of such facilities from pig to ingot and billets, but does not hereby warrant that such equipment will in fact be installed. Contractor shall be obligated to deliver aluminum ingot and billets to the Government or to non-integrated users during any period to the extent of orders received under the terms of this Contract, but not to exceed the quantity of ingot and billets which Contractor is reasonably able to produce with the equipment installed at the additional aluminum reduction facilities during such period.

ARTICLE XIX.

Points and Terms of Delivery

Contractor shall deliver aluminum to the Government at the delivery point within the continental United States specified in each order of the Government given pursuant to the terms of this Contract. Such delivery point may be f. o. b. point of origin (or shipping point); f. o. b. Contractor's plant (warehouse or other facility) point of origin (or shipping point); f. o. b. point of origin (or shipping point), freight prepaid; f. o. b. point of origin (or shipping point), freight allowed; f. o. b. destination; or f. o. b. destination within buyer's premises; *provided*, that such delivery point is in accordance with Contractor's terms and conditions applicable to the contract price in effect at the time of delivery. A delivery point other than in accordance with Contractor's terms and conditions applicable to the contract price in effect at time of delivery may be specified upon the mutual consent of the parties. Contractor shall be responsible for each shipment of aluminum covered by this Contract until it is delivered at the designated delivery point, regardless of the point of inspection. When delivery at that point has been effected, then all risk of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from Contractor to the Government.

ARTICLE XX.

Inspection

(a) All aluminum delivered to the Government pursuant to this Contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places including the period of manufacture, and in any event prior to final acceptance.

(b) In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the requirements of this Contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Administrator or his duly authorized representative, by and at the expense of Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the rejection or requirement of replacement is disclosed. If Contractor fails to remove promptly such aluminum when requested by the Administrator or his duly authorized representative, and to proceed promptly with the replacement thereof, the Government at its option may (1) by contract or otherwise replace such aluminum and charge to Contractor the cost occasioned the Government thereby, or (2) terminate the right of Contractor to make delivery of the amount of aluminum so rejected for default, or (3) accept the aluminum so rejected at an appropriate reduction of the contract price.

(c) If any inspection or test is made by the Government on the premises of Contractor, Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of Contractor, it shall be at the expense of the Government: *Provided,* That in case of rejection the Government shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such a manner as not to delay unduly the work. The Government reserves the right to charge to Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by Contractor. Final acceptance or rejection of the aluminum shall be made as promptly as practicable after delivery, but in any event within thirty (30) days thereafter.

(d) The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to final acceptance. Except as otherwise provided in this Contract, final acceptance shall be conclusive except as regards latent defects or fraud.

(e) Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by Contractor shall be kept complete and available to the Government during the performance of this Contract and for such longer period as may be specified elsewhere in this Contract.

ARTICLE XXI.

BUY AMERICAN ACT

Contractor agrees that there will be delivered under this Contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this ARTICLE XXI as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act (41 U. S. Code 10 a-c), the foregoing provision shall not apply (i) with respect to supplies excepted by the Administrator from the application of that Act, (ii) with respect to supplies for use outside the United States, (iii) with respect to supplies to be delivered under this Contract, which are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (iv) with respect to such supplies, from which the supplies to be delivered under this Contract are manufactured, as are of a class or kind determined by the Administrator or his duly authorized representative not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, provided that this exception (iv) shall not permit delivery of

supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

The Administrator hereby determines for the purpose of this Contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XXII.

Prison Labor Not to be Employed

In connection with the performance of work under this Contract, Contractor and Reduction agree not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XXIII.

The Eight-Hour Law of 1912

This Contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912 as amended (40 U. S. Code 324-326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912 as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this Contract, in the employ of Contractor or Reduction or any subcontractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by Contractor or Reduction or any subcontractor engaged in the performance of this Contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at

not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon Contractor or Reduction, as the case may be, for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government.

ARTICLE XXIV.

THE WALSH-HEALEY ACT

If this Contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed $10,000 and is otherwise subject to the Walsh-Healey Public Contracts Act as amended (41 U. S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XXV.

NO DISCRIMINATION IN EMPLOYMENT

In connection with the performance of work under this Contract, Contractor and Reduction agree not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provisions in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XXVI.

MEMBERS OF CONGRESS

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Contract, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this Contract if made with a corporation for its general benefit.

ARTICLE XXVII.

Solicitation

Contractor and Reduction warrant that no person or selling agency has been employed or retained to solicit or secure this Contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by Contractor or Reduction for the purpose of securing business. For breach or violation of this warranty, the Government shall have the right to annul this Contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXVIII.

Performance During Disputes

In the event of any dispute arising under this Contract, Contractor and Reduction shall respectively, notwithstanding the pendency of such dispute, diligently proceed with the performance of this Contract.

ARTICLE XXIX.

Descriptive Headings

The table of contents and the descriptive headings of the several Articles of this Contract are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

ARTICLE XXX.

Effect of Termination of Either Supply Contract

In the event that either Contract No. GS-OOP(D)-12008 between the United States and Contractor, dated July 18, 1951, effective as of December 19, 1950, or this Contract, is terminated in accordance with applicable contract provisions, then said Contract No. GS-OOP(D)-12008 shall be construed and given effect as if the facilities described in Article II(a)(i) of this Contract had been originally constructed under and pursuant to said Contract No. GS-OOP(D)-12008, and the rights and obligations of the parties shall be determined accordingly. Contractor shall have the right to assign, pursuant to the Assignment of Claims Act of 1940, as amended, to any bank, trust company or other financ-

ing institution, including any Federal lending agency, as security for any loans secured by Mortgage and Deed of Trust dated as of January 1, 1951, from Reynolds Metals Company to Bank of America National Trust and Savings Association and W. C. Koenig, as Trustees, its rights under the provisions of ARTICLES VIII, XI(b), XIV and XV of said Contract No. GS-OOP(D)-12008 to receive any payments with respect to the facilities described in ARTICLE II(a)(i) hereof, in which event such payments to be made to the assignee shall not be subject to reduction or set-off.

In the event of any such termination, (a) this Contract shall be considered to be amended so that the total amount of aluminum to be produced and sold hereunder shall be reduced from 300,000 to 275,000 tons; (b) Contract No. GS-OOP(D)-12008 shall be considered to be amended so that the amount of aluminum to be produced and sold thereunder shall be increased from 500,000 to 525,000 tons; and (c) all aluminum produced at the facilities described in ARTICLE II(a)(i) of this Contract shall be considered to have been produced under Contract No. GS-OOP(D)-12008.

ARTICLE XXXI.

ASSUMPTION OF CERTAIN CONTRACT RIGHTS AND OBLIGATIONS

If the Lease to Contractor referred to in the recitals hereof shall be terminated or cancelled, then upon the conditions hereinafter stated, the Corporate Trustee under the Mortgage and Deed of Trust, dated as of April 1, 1952, between Reduction and Manufacturers Trust Company and A. F. Keuthen, as Trustees, or an operator or lessee of the additional aluminum reduction facilities described in ARTICLE II(a)(ii) hereof (which operator or lessee may be selected from time to time by the Trustees under said Mortgage and Deed of Trust), or any person or corporation acquiring the said facilities from, or as a result of the exercise of the rights of, the Trustees under said Mortgage and Deed of Trust, after the Corporate Trustee has given written notice to the Administrator of intention so to do, shall have the right and shall be obligated in the place and stead of Contractor or the Corporate Trustee or any operator or lessee who shall have been substituted for Contractor under the provisions of this ARTICLE, to produce by means of the facilities described in ARTICLE II(a)(ii) hereof and to sell (including the right to sell to the Government which shall have the obligation to purchase aluminum pig as provided in this Contract) pursuant to

the provisions of this Contract, and at prices determined in the manner provided herein, the 275,000 tons of aluminum pig, ingot or billets covered by this Contract and to be produced from said facilities (less any amount thereof so produced by Contractor prior to said termination or cancellation of the Lease) and shall have such other rights, and be charged with such other obligations, specified in this Contract as the Administrator may determine to be reasonably applicable; provided (1) that if any such notice is given by the Corporate Trustee after production under this Contract has been suspended for a period or periods aggregating more than seven months subsequent to said termination or cancellation of said Lease, the Administrator may, by written notice to the Corporate Trustee within twenty days after the receipt of such notice, elect not to permit such substitution, and (2) that possession of said facilities by or on behalf of the Corporate Trustee or by such operator or lessee or such person or corporation shall be taken not later than forty-five days after the giving of any such notice, and (3) that any such operator or lessee or such person or corporation, as the case may be, shall be, in the opinion of the Administrator, responsible and capable of operating said facilities and shall execute and deliver to the Administrator not later than the date of taking such possession a written assumption of the obligations specified above in this ARTICLE, including such other obligations specified in this Contract as the Administrator shall have determined to be reasonably applicable. It is understood that neither the giving of such notice by, nor the assumption of such obligations by, nor the availability of such rights to, said Corporate Trustee or such operator or lessee or such person or corporation shall affect, impair, impede, negate or diminish any rights or remedies which the Government may have at law or in equity, or both, against Contractor or Reduction on account of default under this Contract, save by way of mitigation (if any) of damages sustained or to be sustained by the Government.

In the event that said Corporate Trustee or any such operator or lessee or such person or corporation succeeds to rights of Contractor and assumes obligations of Contractor as provided in this ARTICLE, Contractor agrees that it will make available to said Corporate Trustee or such operator or lessee or such person or corporation, as the case may be, upon reasonable terms and conditions and at reasonable prices, the quantities of alumina required by said Corporate Trustee or by such operator or lessee or such person or corporation to meet the obligations so assumed with respect to aluminum to be produced from

the additional aluminum reduction facilities described in ARTICLE II(a)(ii) of this Contract; provided that this paragraph shall not apply (1) if said Corporate Trustee or such operator or lessee or such person or corporation also becomes the operator, lessee or owner of the additional alumina facilities described in ARTICLE II(b) of this Contract, or (2) unless Contractor or a subsidiary or subsidiaries of Contractor controlled by Contractor shall control said additional alumina facilities.

In no event shall the Corporate Trustee, operator, lessee, or such other person or corporation succeed pursuant to this ARTICLE to any rights to receive any termination payments under this Contract.

ARTICLE XXXII.

LEASE AND FINANCE AGREEMENT NOT TO BE RESCINDED, TERMINATED OR AMENDED WITHOUT CONSENT OF ADMINISTRATOR

Contractor and Reduction agree that without the prior written consent of the Administrator they will not voluntarily, either by mutual agreement or by the exercise of any rights or options conferred therein, or otherwise, rescind, terminate or amend the Lease or the Finance Agreement, both dated as of April 1, 1952, and referred to in the second recital clause of this Contract, until after the date of completion of performance specified in ARTICLE I of this Contract, or so long as the guaranty by the Government of the loan secured by the Mortgage and Deed of Trust, dated as of April 1, 1952, between Reduction and Manufacturers Trust Company and A. F. Keuthen, as Trustees, shall exist, or while the Government may be the owner of any part of said loan, whichever shall be the longer period; provided, however, that Contractor or Reduction may terminate said Lease pursuant to paragraphs Eighth or Ninth thereof without the consent of the Administrator.

ARTICLE XXXIII.

ADDITIONAL ALUMINUM REDUCTION PLANT TO BE OPERATED TO CAPACITY

Subject to the provisions of ARTICLE VI(c) and subject to force majeure as defined in ARTICLE XII of this Contract, Contractor agrees to operate the additional aluminum reduction plant described in ARTICLE II(a)(ii) of this Contract at the average rate of production of Fifty-Five Thousand (55,000) short tons per year, until the date of completion of performance specified in ARTICLE I of this Contract.

ARTICLE XXXIV.

CONTROLLING STATUTE

This contract is entered into pursuant to the Defense Production Act of 1950, as amended, (Public Law 774, 81st Congress; Public Laws 69, 96 and 429, 82nd Congress).

IN WITNESS WHEREOF, the parties hereto have executed this Contract in quadruplicate on this 22nd day of October, 1952, as of October 11, 1951.

UNITED STATES OF AMERICA

By JESS LARSON
Administrator of General Services

REYNOLDS METALS COMPANY

By R. S. REYNOLDS, JR.
President

Attest:

ALLYN DILLARD
Secretary

REYNOLDS REDUCTION COMPANY

By MARION M. CASKIE
Vice President

Attest:

PRESTON WICKHAM
Assistant Secretary

AMENDMENT NO. 1 TO CONTRACT NO. GS-OOP(D)-12214 BETWEEN THE UNITED STATES OF AMERICA AND REYNOLDS METALS COMPANY AND REYNOLDS REDUCTION COMPANY

Contract No. GS-OOP(D)-12214, executed October 22, 1952, between the United States of America and Reynolds Metals Company and Reynolds Reduction Company, is hereby amended as follows:

1. Subparagraph (e) of Article VIII of said contract is hereby deleted.

2. The first sentence of subparagraph (a) of Article XV of said contract is hereby amended by deleting the phrase "one (1) year" in clause (3) of said sentence and inserting in place thereof the phrase "ninety (90) days".

IN WITNESS WHEREOF the parties hereto have executed this Amendment in quadruplicate this 27th day of February, 1953.

[SEAL] UNITED STATES OF AMERICA,
By RUSSELL FORBES,
Acting Administrator of General Services.

[SEAL] REYNOLDS METALS COMPANY,
By MARION M. CASKIE,
Executive Vice President.

Attest:
B. P. HOLLAND, Jr.,
Assistant Secretary.

[SEAL] REYNOLDS REDUCTION COMPANY,
By MARION M. CASKIE,
Vice President.

Attest:
B. P. HOLLAND, Jr.,
Assistant Secretary.

DMP-78

Contract

BETWEEN

UNITED STATES OF AMERICA

AND

HARVEY MACHINE CO., INC.

Dated, September 13, 1955.

CONTRACT

THIS CONTRACT, entered into the 13th day of September, 1955, by the UNITED STATES OF AMERICA, herein called the Government, acting through the General Services Administration, herein called GSA, and HARVEY MACHINE CO., INC., a corporation existing under the laws of the State of California, herein called Contractor,

WITNESSETH:

WHEREAS, the Government, acting by and through the Bonneville Power Administration, and the Contractor entered into a Power Sales Contract (No. 14-03-001-9938) under date of January 27, 1953, with respect to the construction of an aluminum reduction plant by the Contractor and the supply of electrical energy by the Government for such plant; and

WHEREAS, such Power Sales Contract of January 27, 1953, and certain amendments and modifications thereto, have been incorporated into a new Power Sales Contract, a Trust Agreement and a Transmission Agreement each entered into between the Government, acting by and through the Bonneville Power Administrator, and the Contractor under date of September 13th, 1955; and

WHEREAS, the Government, acting by and through GSA, and the Contractor entered into an agreement in the form of a Letter of Intent, under date of May 15, 1953, with respect to the production and sale of aluminum to be produced in said plant which agreement has from time to time been modified; and

WHEREAS, the parties to such Letter of Intent agreement have negotiated the terms for a formal contract in accordance with the general purposes contemplated by such Letter of Intent agreement;

NOW, THEREFORE, the parties hereto mutually covenant and agree as follows:

ARTICLE I.

Sale and Purchase of Aluminum.

Subject to the terms and conditions hereof, Contractor agrees to produce and to sell Two Hundred and Seventy Thousand (270,000) short tons of 2,000 pounds each, of primary aluminum pig, said primary aluminum to be of minimum grade of ninety-nine per cent (99%) aluminum, which is herein called the "primary aluminum". Contractor will produce such aluminum from a new aluminum reduction plant which Contractor agrees hereafter to construct, herein called the "reduction plant". Such production and sale shall commence upon the date of completion of the reduction plant (as defined hereinafter) and shall continue thereafter at a rate of approximately Fifty-Four Thousand (54,000) short tons per year, except that for the first six months of operation after the date of completion of the reduction plant, production may be at such lesser rate as may be necessarily inherent in newly constructed facilities. Such production and sale shall continue until Two Hundred and Seventy Thousand (270,000) short tons of aluminum have been so produced from the reduction plant after the date of completion of construction (as defined hereinafter) and shall be completed no later than June 30, 1963, unless extended to the extent permitted by law, as hereinafter provided in ARTICLE XII. The date of completion of the new reduction plant shall be the first day upon which ninety per cent (90%) of the electrolytic cells, which are to be constructed as a part of such plant, are tapped. Upon the occurrence of such event, Contractor shall forthwith issue a certificate to the Government certifying such date to be the date of said completion.

ARTICLE II.

Construction of the New Facilities.

1. New facilities to be constructed and acquired by the Contractor for the purposes of this Contract shall consist of:

(a) A new aluminum reduction plant, herein called the "reduction plant", consisting of two (2) pot lines having an aggregate capacity of approximately Fifty-Four Thousand (54,000) short

tons of aluminum per year, to be located on land now owned by the Contractor in the vicinity of The Dalles, Oregon, together with the necessary auxiliary facilities, including such substation, transmission lines and other auxiliary facilities as may be necessary to permit the reduction plant to take power from the Bonneville Power Administration;

and may consist also of:

(b) A new alumina plant, herein called the "alumina plant", having a capacity of approximately One Hundred Thousand (100,000) short tons of alumina per year; and

(c) Bauxite mining properties and facilities, herein called the "bauxite facilities", having a capacity to produce approximately Two Hundred Thousand (200,000) short tons of bauxite per year.

As used in this contract, the terms "reduction plant", "alumina plant" and "bauxite facilities" shall have the meaning set forth in this Article II.

2. The Contractor shall proceed without delay to arrange for the financing of the reduction plant and thereafter to construct and acquire the reduction plant and to provide, pursuant to said Trust Agreement, for the said necessary auxiliary facilities.

3. The Contractor shall proceed with the construction and acquisition of the alumina plant separately or the alumina plant and the bauxite facilities together by no later than May 1, 1959 and such construction and acquisition shall thereafter be completed without delay. The Contractor may proceed with the construction and acquisition of the alumina plant separately hereunder if the Contractor establishes to the satisfaction of the Government that it has a firm supply of bauxite adequate for the operation of the alumina plant. The bauxite facilities may not be constructed separately hereunder. The alumina plant and the bauxite facilities shall be covered by this Contract only if construction thereof, in accordance with this ARTICLE, is begun not later than May 1, 1959; otherwise all references to the bauxite facilities or to both the alumina plant and the bauxite facilities, as the case may be, shall be considered to be deleted. Failure of the Contractor to

commence the construction and acquisition of the alumina plant separately or the alumina plant and the bauxite facilities together by May 1, 1959 shall not constitute or be a basis for any breach of this Contract by the Contractor so long as the Contractor shall obtain from other sources a supply of alumina which will enable the Contractor to produce the primary aluminum required hereunder.

ARTICLE III.

Disposition of Production from the Reduction Plant.

Commencing with the date of completion of the reduction plant, and continuing until the termination or completion of this Contract, and subject to priority delivery as may be required pursuant to law, the primary aluminum shall be disposed of as follows:

(a) (1) The Government may require Contractor to sell to it, at the price provided in ARTICLE XI hereof, all or any of the primary aluminum for each consecutive six-month period during the continuance of this Contract, the first such period commencing with the date of completion.

(2) Contractor shall, ninety (90) days before the date it estimates as the completion date, advise the Government of such estimated date and the amount of aluminum Contractor estimates it will produce from the reduction plant during the initial six-month period after completion. It is recognized that after the completion date additional time thereafter will be required to bring the aluminum reduction pots to full capacity, and that production for such initial period may be less than the production in subsequent six-month periods. Within thirty (30) days after receipt of such notice, the Government shall notify Contractor in writing of the amount of aluminum it elects to purchase during the initial period. The notice shall be a firm order for the purchase of the quantity stated, and deliveries to the Government shall commence as soon as practicable after the completion date. Notwithstanding such estimate, Contractor shall not be obligated to deliver to the Government aluminum in excess of the amount produced at the reduction plant during said period.

(3) Thereafter, at least ninety (90) days prior to the beginning of each subsequent six-month period during the continuance of this Contract, the Government shall give notice in writing to Contractor of the amount of aluminum it elects to purchase for such period. Each such notice, when given, shall be a firm order for the purchase of the quantity stated. If no notice is given within the time provided in the preceding sentence, Contractor shall be under no obligation to deliver aluminum to the Government pursuant to this ARTICLE III during the following six-month period.

(4) The Government shall in each such notice specify the amount of aluminum it desires to have comply with the latest revision of the National Stock Pile Material Purchase Specification P-62 current at the time of such notice. Thereafter, Contractor shall deliver such quantities in accordance with such specifications, *provided,* that the Government may not order more than nine thousand (9,000) short tons of aluminum meeting the Stock Pile Specification in any six-month period, or proportionate amounts in longer or shorter periods, and *provided further,* that Contractor will not be required to deliver aluminum meeting such specifications to the extent that such Specification is more burdensome than the latest revision of National Stock Pile Purchase Specification P-62 for Grades 6A and B in effect on the effective date of this Contract.

(5) Insofar as practicable, the Government will not at any time purchase from Contractor under this ARTICLE III(a) quantities which are proportionately larger, in relation to Contractor's portion of the total expanded aluminum production then subject to call by the Government, than the quantities being called from other companies; *provided,* that the Government shall not be obligated to undergo any price disadvantage by reason of the provisions of this subparagraph.

(6) Deliveries under all orders pursuant to this subparagraph (a) shall be made in approximately equal monthly quantities, unless a different delivery schedule is specified in the Government's notice; provided, however, that the Government shall not specify for delivery in any one month a quantity greater than one month's productive capacity of the reduction plant.

(b) (1) For the initial period and each consecutive six-month period thereafter referred to in subparagraph (a) above, Contractor shall offer pig, ingot or billet for sale to non-integrated users, at the price provided in ARTICLE XI hereof, in the aggregate quantity, if any, by which the amount ordered by the Government for such period, in accordance with subparagraph (a), is less than two-thirds of the reasonably estimated production for such period. As used in this Contract, the term "non-integrated user" shall mean any manufacturer, fabricator, finisher or producer in the United States who is not a producer of primary aluminum or an affiliate or subsidiary of such a producer, and who is purchasing such aluminum for his own manufacturing, fabricating, finishing or producing operations. Said offer shall be made for a period of at least thirty (30) days and shall be made by publishing a notice in "The American Metal Market" or by such other method as Contractor and the Government may mutually agree upon. Such notice shall advise that said aluminum is for sale and that such non-integrated users may submit orders for the purchase thereof during a period of thirty (30) days from the date of first publication of the notice. Such notice shall be published in each edition for two weeks, commencing at least thirty (30) days prior to the beginning of the initial period and at least sixty (60) days prior to the beginning of each subsequent period.

All orders shall be subject to Contractor's acceptance, to Contractor's approval of the credit of the purchaser and to Contractor's standard terms and conditions of sale then in effect. Subject to the provisions of the foregoing sentence, Contractor shall accept on a first-come, first-served basis sufficient orders from non-integrated users to equal the quantity thus offered for sale, as above provided, but thereafter shall have no obligation to accept any further orders from non-integrated users for the period. Nothing herein shall prohibit Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other non-integrated users for such period. If, pursuant to the terms of this ARTICLE, the amount of aluminum which Contractor is obligated to offer for sale to such non-integrated users is zero, then Contractor need not publish the notice or make the offer to non-integrated users referred to above.

It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

(2) It is recognized that Contractor may in the future make contracts with non-integrated users for the delivery of aluminum pig, ingots or billets which may be produced from the reduction plant. The maximum quantity of aluminum which Contractor may be obligated to deliver pursuant to such commitments for any applicable period may be deducted from the quantity which Contractor is obligated to make available to other non-integrated users for such period under this subparagraph (b), provided that Contractor may not so deduct any quantities to be delivered pursuant to any contract which requires Contractor to deliver in excess of Five Hundred Thousand (500,000) pounds of aluminum per month to the purchaser unless such contract shall have been approved by the Government. The Government shall be deemed to have approved any such contract unless it disapproves the same and so notifies Contractor in writing within fifteen (15) days after written notice has been received by the Government of the terms of such contract. Any quantity so deducted by Contractor and not actually delivered pursuant to such contracts, and not delivered to other non-integrated users during such period, shall be added to the quantity which Contractor is obligated to offer to non-integrated users during the subsequent period.

(3) If, after receiving the notice from the Government of the amount of aluminum it elects to purchase as provided in subparagraph (a) hereof, Contractor finds that the quantity ordered by the Government for any such period is such that it may be impossible for Contractor to fulfill its prior commitments to such other customers as are non-integrated users, Contractor may advise the Government of such fact. The Government shall thereupon review the quantity ordered by the Government and if under

all of the circumstances the Government considers it advisable, it may reduce the quantity ordered by the Government.

(c) (1) Any quantity of production from the reduction plant not disposed of in accordance with this ARTICLE III, and not otherwise sold or utilized by Contractor, may be tendered to the Government, in the form of pig only, during each consecutive twelve-month period, the first such period commencing with the date of completion of the reduction plant.

(2) Such tender, or tenders, shall be made during the first ten (10) days of any calendar month during any such period and during the first ten (10) days following the expiration of such period and all of such tenders shall be considered to be applicable to such period. The Government shall purchase the amount so tendered at the price specified in ARTICLE XI.

ARTICLE IV.

Sale of Production Before Completion of the Reduction Plant.

The Government may require the sale to it of all or any part of the aluminum produced from the reduction plant from the date of the beginning of commercial production and prior to the date of completion of the reduction plant. Such sale shall be at the price provided in ARTICLE XI hereof. When Contractor is reasonably able to do so, and between ninety (90) days and sixty (60) days before the date Contractor estimates commercial production will begin, it shall advise the Government of the time when it estimates that aluminum will first be commercially produced at the reduction plant and of the quantity which it estimates will be produced from such time until said date of completion. Between sixty (60) days and thirty (30) days prior to the estimated date when aluminum will first be commercially produced, the Government shall notify Contractor in writing of the amount of such metal it desires to purchase, which notice shall be a firm order by the Government to purchase the quantity of aluminum specified therein at the price and upon the terms and conditions herein set forth for the sale of the aluminum to the Government after said date of completion, except that during such period Contractor shall not be required to deliver any aluminum of stockpile specifications beyond

Contractor's reasonable ability to do so during said period, or any aluminum in an amount exceeding the production of the reduction plant. Contractor shall offer in pig, ingot or billet form for sale to non-integrated users, at the price provided in ARTICLE XI hereof, the quantity, if any, by which the amount ordered by the Government for said period is less than two-thirds of the estimated production from the new facilities for such period, subject to the terms and conditions of ARTICLE III (b). Any quantity of aluminum produced during this period shall not reduce the quantities otherwise specified in this Contract, and specifically shall not be included as a portion of the Two Hundred and Seventy Thousand (270,000) tons specified in ARTICLE I.

ARTICLE V.

Payment for Aluminum Delivered to the Government.

Contractor shall be paid by the Government for all aluminum delivered and accepted upon the submission of properly certified invoices or vouchers. Such invoices or vouchers may be submitted to the Government upon each delivery of aluminum.

ARTICLE VI.

Relationship of Reduction Plant to Other Facilities.

(a) It is the intention of this Contract that the Government by agreeing to purchase aluminum from the reduction plant as herein provided, guarantees the disposition of the entire output of the reduction plant to the extent of the Two Hundred Seventy Thousand (270,000) ton quantity specified in ARTICLE I, subject to Contractor's rights of termination as provided in ARTICLE XI(b) and ARTICLE XIII. In this connection, it is recognized that Contractor may in the future acquire further aluminum reduction facilities other than those to be constructed under this Contract. It is understood that, except as to orders from the Government expressly placed pursuant to this Contract for aluminum to be produced at the reduction plant to be constructed under this Contract, Contractor may first dispose of the production from such other facilities or utilize for its own purposes the production of such

other facilities, before disposing of or utilizing aluminum from the reduction plant, and that, in accordance with ARTICLE III(c), the Government will purchase from Contractor all of the production of the reduction plant not otherwise disposed of or utilized by Contractor. The Government does not, by this Contract, guarantee or agree to purchase production from other facilities.

(b) Without affecting the rights and duties of the parties as set forth in the preceding subparagraph, deliveries to the Government and to non-integrated users under this Contract may, at Contractor's option, be made by substituting aluminum produced from such other facilities for aluminum actually produced at the reduction plant. In such event, any necessary invoice adjustments shall be made so that the cost to the Government shall not be increased thereby.

ARTICLE VII.

Sale of Aluminum to Non-Integrated Users for Fifteen Years.

As an inducement to the Government to enter into this Contract, and as part of the consideration of this Contract, Contractor agrees that for a period of fifteen (15) years from and after the date of completion of performance specified in ARTICLE I or from and after the effective date of termination by Contractor pursuant to ARTICLE XI(b) hereof, or until any loan guaranteed by the Government pursuant to ARTICLE X is fully repaid, whichever shall be the longer (but not beyond the effective date of the exercise by the Government of its option to purchase the reduction plant pursuant to ARTICLE XV hereof), Contractor will each year make available for sale to non-integrated users, under credit conditions as to each purchaser satisfactory to Contractor, at Contractor's lowest published market price for the grade of aluminum involved as of date of delivery, and on Contractor's current standard terms and conditions of sale at time of purchase, a quantity of aluminum equal to twenty-five (25) per cent of the annual capacity of the reduction plant, provided that the Contractor shall be obligated under this ARTICLE VII only to the extent that it actually produces aluminum from the reduction plant and from any other aluminum reduction facilities which it may construct or acquire in the

future. The obligation to make sales under this paragraph is limited to those purchasers who, at least ninety (90) days in advance of Contractor's production year, make firm purchase commitments with Contractor for specified quantities for such production year. Said aluminum will be offered on a first-come first-served basis, except that in the event Contractor for any year receives orders in excess of such twenty-five (25) per cent, nothing herein shall prohibit the Contractor from reducing the quantity of any order which it considers disproportionately large in relation to the other orders it has received from other customers for such year under this ARTICLE. It is understood and agreed that (a) the Government may enforce this provision in its own name, by first seeking specific performance, and in the event the court decides that no equitable remedy lies, then the Government may sue for damages, and in that event the measure of damages shall be the damages to non-integrated users affected but not including consequential damages, and (b) only the Government may enforce this provision, and no third party shall have any right whatever to enforce this provision, either in its own right or by derivative right from the Government.

ARTICLE VIII.

Termination by Contractor.

(a) The termination of this Contract by Contractor, as provided in paragraph (b) of ARTICLE XI, shall not have the effect of cancelling or terminating any order placed by the Government for aluminum pursuant to paragraph (a) of ARTICLE III or any tenders made by Contractor to the Government pursuant to paragraph (c) of ARTICLE III before the effective date of termination, to the extent that such aluminum has been produced prior to such effective date of termination.

(b) If Contractor, at any time after such termination and before the cost of all three groups of new facilities to be constructed hereunder, to wit, the bauxite facilities, the alumina plant and the reduction plant, has been completely amortized, depreciated, or otherwise deducted for Federal income tax purposes, notifies GSA that it intends to elect, with respect to any or all of said groups of facilities the cost of which has not been completely so amortized, depreciated or other-

wise deducted, to avail itself of the provisions of Section 168(g) of the Internal Revenue Code of 1954, and to receive a termination payment as defined in Section 168(g)(1)(A) with respect to such group or groups of facilities:

(1) Contractor shall give written notice to GSA of its intention so to elect and thereupon there shall become due and payable from the Government to Contractor a termination payment equal to the adjusted basis, as computed for amortization purposes for Federal income tax purposes, pursuant to the provisions of Section 168(e) of the Internal Revenue Code, of such group or groups of facilities as of the beginning of the month in which such notice of intention to elect is given by Contractor; *provided,* however, that no termination payment shall be made pursuant to this subparagraph unless such payment is certified as provided in Section 168(g). The election by Contractor, referred to in this subparagraph, as to any of said groups of facilities need not be made simultaneously but may be made at any time as to any group until the cost of such group has been amortized to the extent of the adjusted basis thereof for amortization purposes as defined by Section 168(e) of the Internal Revenue Code. It is the intent of GSA and Contractor that any termination payment which may be made pursuant to the provisions of this subparagraph will be compensation to Contractor for the unamortized cost of an emergency facility because a contract with the United States involving the use of the facility has been terminated by its terms or by cancellation as provided in Section 168(g) of the Internal Revenue Code of 1954, and GSA agrees to recommend to the certifying authority specified in Section 168(g) that such authority so certify.

(2) If Contractor intends to elect to avail itself of the provisions of Section 168(g) of the Internal Revenue Code in respect to any group or groups of such emergency facilities, and has given written notice of such intention to GSA, but the certifying authority designated pursuant to the provisions of such section does not, in respect to any one or more of such groups of emergency facilities, certify by the end of Contractor's fiscal year in which such notice of election is made, that the payment is a pay-

ment as compensation for the unamortized cost of an emergency facility made because a contract with the United States, involving the use of such facility, has been terminated by its terms or by cancellation, or if Section 168(g) shall have been repealed or modified in such a way as to prevent the issuance of a certificate to Contractor before any termination payment authorized under subparagraph (b)(1) of this ARTICLE VIII is requested or received, then there shall become due and payable from the Government to Contractor in respect to such group or groups of facilities the cost of which shall not have been completely amortized, depreciated or otherwise deducted, upon Contractor's written request therefor, a termination payment which shall become due and payable in portions as follows: In Contractor's fiscal year in which Contractor so requests such termination payment with respect to any such group of facilities, the Government shall pay to Contractor an amount equal to the amortization deduction allowable with respect to such group of facilities for Federal income tax purposes for the period commencing with the month in which the notice of election to receive a termination payment is given and ending with the close of such fiscal year, and said payment shall become due and payable as of the month in which such notice of election was given; and as of July 1 of each fiscal year of Contractor thereafter, the Government shall pay to Contractor an amount equal to the amortization deduction allowable with respect to such group of facilities for Federal income tax purposes for such fiscal year reduced by an amount equal to the aggregate of the production charges computed under subparagraph (b)(4) of this ARTICLE VIII on the following basis:

(A) for the first fiscal year subsequent to the year in which the request for payment is made, on each ton of aluminum produced between the first day of the month in which the notice of election is made and the first day of July next following;

(B) for each subsequent fiscal year, on each ton of aluminum produced during the twelve (12) months immediately preceding the first day of July of such fiscal year.

(3) No termination payment shall be made pursuant to this ARTICLE VIII with respect to the alumina plant, or the alumina plant and the bauxite facilities, if such plant, or such plant and facilities, as the case may be, have not been completed prior to termination.

(4) If Contractor receives a termination payment or payments with respect to one or more groups of facilities pursuant to subparagraphs (b)(1) or (b)(2) of this ARTICLE VIII, Contractor shall pay to the Government a production charge as hereinafter specified on each ton of aluminum produced from the new facilities after the receipt of each such payment and sold or utilized. Said production charge shall be paid by Contractor regardless of whether Contractor itself shall or shall not at any particular time or times, or from time to time, own or occupy said new facilities, and regardless of whether, at any particular time or times, or from time to time, the operation of said new facilities or the production of aluminum therefrom is effected by Contractor or by some entity other than Contractor; *provided,* however, that no production charge shall be payable if or after the Government purchases said facilities under the provisions of ARTICLE XV of this Contract. The production charge per ton with respect to each such group of facilities shall be seventy-five per cent (75%) of an amount determined by dividing (a) the number of tons obtained by subtracting from Two Hundred and Seventy Thousand (270,000) tons of aluminum the number of tons of aluminum actually produced from the new facilities pursuant to this contract from the date of completion of the new facilities to the termination date, into (b) the adjusted basis, as of the termination date, as computed for amortization purposes for Federal income tax purposes pursuant to the provisions of Section 168(e) of the Internal Revenue Code, of such group of facilities with respect to which the termination payment was received. Such production charge shall be made with respect to each group of facilities either until the expiration of fifteen (15) years from the receipt of such termination payment or the first portion thereof in respect of such group of facilities (and in such event shall also be paid on all aluminum produced from the new facilities but not yet sold or utilized at the expira-

tion of such fifteen-year period), or until the total of such production charges paid equals the amount of the total termination payment in respect of such group of facilities, whichever first occurs. After the occurrence of either said event, Contractor shall be under no further obligation to pay such production charge in respect of such group of facilities. If a termination payment is made under the provisions of subparagraph (b)(2) of this ARTICLE VIII with respect to any group of facilities, the production charge with respect to such termination payment shall be computed for purposes of determining the amount of such termination payment or any portion thereof, and no production charge reflected in such computation shall be otherwise payable.

(5) Within ninety (90) days after the end of each month after the date of the receipt of any termination payment or the first portion thereof and until Contractor's obligation to pay all production charges has expired, Contractor shall furnish to the Government a certified statement of the number of tons of aluminum produced from the new facilities and sold or utilized during such monthly period and shall, with such certificate, pay to the Government the amount of production charges due for such period.

(6) Contractor may, at its option, pay any production charge in advance, but shall in no event be required to pay any production charges except for aluminum actually produced from the new facilities, and sold or utilized (including aluminum produced from the new facilities but not yet sold or utilized at the expiration of such fifteen-year (15) period).

(7) If the rate of such production charges, as calculated above, shall become an undue economic burden to Contractor and Contractor shall so demonstrate to the satisfaction of GSA, then GSA shall grant such reduction in such rate and such extension of the period during which such reduced rate shall be payable upon actual production, as it may deem appropriate.

(8) In the event of termination of this Contract by Contractor as provided in subparagraph (b) of ARTICLE XI the sole right and remedy of Contractor, either at law or equity, shall be to receive a termination payment or payments, under the circum-

stances and subject to the terms and conditions set forth in this ARTICLE.

(c) Except as provided in subparagraph (b)(2) of this ARTICLE, if Contractor, after termination, does not elect to avail itself of the provisions of Section 168(g) of the Internal Revenue Code, but continues to take the sixty (60) month amortization deduction authorized by Section 168 of said Code with respect to all of the new facilities until the expiration of the sixty (60) month period, then the Government shall not be obligated to make any termination payment to Contractor, provided that Contractor may, at its option, elect to avail itself of the provisions of such Section 168(g) as to any of the new facilities at any time after termination and prior to the expiration of such sixty (60) month period, and upon so doing, will be entitled to such termination payments as hereinbefore provided.

(d) Nothing in this Contract is intended to limit or curtail Contractor's statutory right to discontinue amortization deductions under Section 168 of the said Code at any time, *provided,* however, that Contractor's exercise of such right shall not increase the amount of the termination payment or payments otherwise payable to Contractor under this ARTICLE had Contractor not elected to exercise such right, nor extend the time within which Contractor may elect to take or may request any termination payment provided for in this ARTICLE. Whether Contractor is or is not taking, or has or has not taken, amortization deductions under said Section 168 with respect to any of the new facilities or any part thereof, the termination payment or payments with respect thereto shall be computed as if Contractor had been taking such amortization deductions. In any event, the limit of the Government's obligation to make any termination payment with respect to any group of facilities shall not exceed such percentage of the cost of such group of facilities as may be certified pursuant to Section 168 of the Internal Revenue Code less an amount equal to one-sixtieth (1/60th) of such percentage of the cost of such group of facilities as may be certified pursuant to Section 168 of the Internal Revenue Code for each month following the month in which such group of facilities was completed (but as respects the alumina plant or the alumina plant and the bauxite facilities for each month following June 30, 1958 if such plant and/or facilities are completed after July 1, 1958) up to and including

the month preceding the month as of which the termination payment or the first portion thereof becomes due and payable.

(e) Contractor may assign, pursuant to the Assignment of Claims Act of 1940, as amended May 15, 1951, to any bank, trust company, or other financing institution, including any Federal lending agency, as security for any loans obtained by Contractor for construction of any of the new facilities, any termination payment or payments which may become due and payable to Contractor under ARTICLE VIII hereof as the result of termination pursuant to ARTICLE XI(b) hereof. In the event of any such assignment, either Contractor or its assignee may give to the Government pursuant to ARTICLE VIII hereof the written notice of election to receive such termination payment or payments, in which event such termination payment or payments shall be made in accordance with such assignment, and shall, to the extent provided in said Act, as amended, not be subject to reduction or set off. Any such assignment shall not be made to more than one party except that such assignment may be made to one or more parties as agent or agents or trustee or trustees for two or more parties participating in any such loans.

ARTICLE IX.

Contractor's Obligation to Sell While Under Obligation to Make Production Payments.

While Contractor's obligation to make production charge payments to the Government pursuant to ARTICLE VIII continues, Contractor agrees, to the extent that it actually produces aluminum at such new facilities, to make available aluminum produced at such facilities for sale to the Government, in the manner and subject to the conditions provided in ARTICLE III(a), and to non-integrated users, in the manner and subject to the conditions provided in ARTICLE III(b), at Contractor's lowest published market price at date of delivery, and on Contractor's current standard terms and conditions of sale in effect at time of purchase, provided that Contractor's obligation to sell aluminum to the Government and to non-integrated users during any period pursuant to this ARTICLE IX shall not exceed twenty-five per cent (25%) of the production of the new facilities for such period.

ARTICLE X.

Financing Arrangements.

(a) For the purposes of this ARTICLE X, the cost of the new facilities to be financed shall not exceed $65,000,000 and the Contractor currently estimates that the allocation of such cost will be as follows:

(1) Reduction plant	$44,000,000
(2) Alumina plant	$18,000,000
(3) Bauxite facilities	$ 3,000,000

(b) To the extent that the Contractor is unable to obtain financing through private lenders on reasonable terms, the General Services Administration will make advance payments hereunder for the construction of such facilities. Provision shall be made, in cases of such advance payments, for the payment of interest at the rate of 5% per annum, repayment in full before the expiration of the period of performance specified in ARTICLE I of this contract, reasonable security and other reasonable terms and conditions with respect to the making, disbursement and repayment of such advance payments, all of which shall be embodied in a supplement to this contract. The Government shall not be obligated, however, to make advance payments for refinancing purposes.

(c) Advance payments are available only to the extent that private financing on reasonable terms cannot be obtained. The advance payments will not be made in respect of more than One Hundred Fifty-Five Thousand (155,000) tons of the Two Hundred Seventy Thousand (270,000) tons of aluminum which the Government has a right hereunder to purchase from the Contractor; and no such payments will be made in respect of the One Hundred Fifteen Thousand (115,000) tons of such Two Hundred Seventy Thousand (270,000) tons which the Contractor first produces from the reduction plant. To facilitate private financing obtainable upon reasonable terms the Government, acting through the General Services Administration, will guarantee the lenders under the V-Loan Program in accordance with the then existing provisions of Regulation V of the Board of Governors of the Federal

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Reserve System and the then existing Schedule of Guarantee Fees and Interest Rates prescribed thereunder by said Board of Governors, provided that any loan in connection with which any such guarantee is requested is a loan for cost of construction of the reduction plant, the alumina plant or the bauxite facilities; and provided further, that such guarantee is to be made at the time the loan is originally made. The Government may, however, in its discretion, guarantee any loan obtained for refinancing the cost of construction of the reduction plant, the alumina plant or the bauxite facilities.

(d) With respect to the alumina plant and the bauxite facilities, any application for a loan guarantee or an advance payment must be made no later than eighteen (18) months after the date of completion of the reduction plant.

(e) If any guaranteed loan or advance payment authorized by this Article remains unpaid, in whole or in part, at the time any termination payment described in ARTICLE VIII above is due Contractor from the Government, the Government reserves the right, at its option, to require Contractor to apply any or all of such termination payment to the payment of all or any part of the principal installments of such guaranteed loan or such advance payment in the inverse order of maturity.

ARTICLE XI.

Sales Price of Aluminum; Contractor's Right of Termination.

(a) (1) The price at which aluminum pig, ingot and billet shall be sold to non-integrated users in accordance with ARTICLES III and IV hereof shall be Contractor's lowest published price for the grade of aluminum involved in effect at the time of delivery (including the terms and conditions applicable thereto).

(2) The price at which aluminum pig and ingot shall be sold to the Government in accordance with ARTICLES III and IV hereof shall be Contractor's lowest published price for the grade involved (including the terms and conditions applicable thereto) in effect at the time of delivery, *provided,* however, that if at the time of delivery the current published market price of either Aluminum

Company of America, Reynolds Metals Company or Kaiser Aluminum and Chemical Corporation is lower than Contractor's published price, the price to the Government shall be the lower of:

(a) the weighted average (as defined below) of the lowest current market prices so published of the three above producers averaged during the ninety (90) days preceding the date of delivery; or (b) Contractor's lowest published price in effect at the time of delivery for the corresponding grade of aluminum.

(3) The weighted average shall be computed on the basis of the existing primary aluminum capacities of the three above producers which for the purposes of this clause shall conclusively be deemed to be Kaiser Aluminum & Chemical Corporation, twenty-five per cent (25%); Aluminum Company of America, forty-five per cent (45%); and Reynolds Metals Company, thirty per cent (30%).

(4) Contractor shall invoice the Government at its said published market price in effect at the time of delivery and grant any credits required by the above formula in Contractor's first succeeding invoice after it becomes possible to compute such credits, which computation shall be promptly made.

(b) In the event that price controls are placed upon aluminum by the Government which result in Contractor's inability to earn a reasonable profit from the operation of the new aluminum reduction plant, and, after reasonable efforts, Contractor is unable to obtain relief from such price controls to the extent that such price controls cause such inability, then Contractor shall have the right to terminate this Contract. Such termination shall become effective thirty (30) days after receipt of written notice thereof delivered by Contractor to the Government, and upon such termination the provisions of ARTICLE VIII shall apply. For the purpose of this paragraph (b) in determining Contractor's profit, the amount of accelerated amortization in excess of normal depreciation shall not be included in computing Contractor's cost of production.

(c) In the event that the price control authorities grant relief to Contractor in accordance with paragraph (b) above, with respect to

Contractor's prices on sale to the Government or to non-integrated users, or both, pursuant to this Contract, then the prices authorized by such relief shall apply to such sales under this Contract during the effective period of such relief, and upon the termination of such relief, the price provisions otherwise specified in this Contract again shall govern.

ARTICLE XII.

Force Majeure.

(a) The time for performance by Contractor of its obligations under the provisions of this Contract relating to the construction of the new facilities, to the production and delivery of aluminum from such new facilities, or to the operation of such new facilities, shall be extended at the option of Contractor and upon the terms and conditions set forth in the following provisos, by a time or times equivalent to any delays, interruptions or cessations occasioned by force majeure (herein defined as any cause which is beyond the reasonable control of and not due to the fault or negligence of Contractor, including without limitation acts of God, strikes, fire, storm, sabotage, acts of war or public enemy, priority or allocation requirements or other acts of the Federal Government, and inability of Contractor to obtain at any time sufficient power under reasonable conditions and at reasonable rates to operate the reduction plant at capacity, it being recognized for purposes of this ARTICLE XII that the reduction plant can be operated economically only with power supplied by or through Bonneville Power Administration at rates equivalent to Bonneville Power Administration's then prevailing rates to industrial users for hydroelectric power); provided, that within ten (10) days after Contractor determines that in Contractor's judgment a particular force majeure occurrence may result in a major delay in the performance of this Contract, Contractor shall give to the Government written notice thereof, together with a statement setting forth the facts evidencing force majeure, and at the conclusion of the duration of each such force majeure, Contractor shall, within ten (10) days thereafter, give to the Government written notice of the termination of such force majeure, and *further provided*, that at the end of each six-month period, the first

six-month period to begin with the date of execution of this Contract, Contractor shall give to the Government written notice of the occurrence of each force majeure not reported under the foregoing proviso, together with written notice of the termination of each such force majeure as shall have terminated within said six-month period.

(b) In the event that any occurrence of force majeure resulting from priority or allocation requirements or other acts of the Federal Government prevents the date of completion of the new aluminum reduction plant from occurring by or before May 1, 1958, Contractor may, at any time thereafter, by written notice delivered to the Government, elect to proceed with the performance of this Contract as if such date of completion had occurred. In the event of such election, the provisions of this Contract which are expressly dependent upon the occurrence of such date of completion, including without limitation ARTICLE IV hereof, shall become effective as if the date of completion of construction had occurred upon the date of receipt of such notice by the Government, *provided,* that without affecting the total amount of aluminum which the Government is obligated to buy and Contractor is obligated to sell hereunder, the amount of aluminum which it shall be the duty of the Government to buy and the duty of the Contractor to sell to the Government and to non-integrated users hereunder in each subsequent period specified in and under the conditions of ARTICLE IV shall be limited to the actual capacity of the new aluminum reduction facilities during such period which is specified in the applicable subparagraph of ARTICLE IV, and *further provided,* that the provisions of this subparagraph (b) shall not relieve Contractor from its obligations to complete the construction and operation of the new facilities except during the period or periods when Contractor is prevented from so doing by conditions of force majeure resulting from priority or allocation requirements or other acts of the Federal Government.

ARTICLE XIII.

Termination for Cause.

If Contractor despite due diligence does not obtain all priorities and allocations (to the extent that priorities and allocations are in effect pursuant to law) necessary for the purchase and delivery of

equipment, supplies, materials, and services of any nature required for the completion or placing into operation of the new facilities, and the inability to obtain such priorities and allocations substantially interferes with the completion or placing into operation of the new facilities for a consecutive period of one hundred eighty (180) days, or such further period as may hereafter be mutually agreed upon, then Contractor may terminate this Contract on the terms provided in ARTICLE XIV hereof.

ARTICLE XIV.

Consequences of Termination for Cause.

In the event this Contract is terminated pursuant to ARTICLE XIII, termination shall become effective thirty (30) days after receipt of notice delivered by Contractor to the Government, and upon such termination the following provisions shall apply:

With respect to each contract or commitment theretofore made by Contractor and relating to the new facilities (including, without limitation, contracts and commitments for utility services, fuel, power, labor, transportation, materials, supplies, equipment, construction and services), the Government shall reimburse Contractor for all expenditures actually made thereunder up to date of termination, and either, at the Government's option, (i) require the assignment by Contractor to the Government of such contract or commitment and assume Contractor's obligations thereunder, or (ii) direct Contractor to cancel or settle such contract or commitment and reimburse Contractor for its expenditures in effecting such cancellation and settlement. Contractor shall thereupon, at the request of the Government, transfer and deliver to the Government any or all real and personal property obtained by Contractor as a result of such expenditures and not previously consumed, together with all necessary and useful easements, rights of access, rights of way, and other rights, over, to, across, under, on and about any real property owned by Contractor in the vicinity, which are reasonably required by the Government to remove, complete construction of, operate or maintain the real and personal property so transferred to the Government. Contractor shall be entitled to exclude

from the provisions of this ARTICLE all contracts and commitments relating to the new alumina facilities, or all contracts and commitments relating to any new bauxite facilities, or both, by delivering written notice of its election to the Government, and in such event Contractor shall not be required to transfer or deliver to the Government any real or personal property obtained by Contractor as a result of expenditures pursuant to such excluded contracts or commitments.

ARTICLE XV.

Government Purchase Option.

(a) If (1) this Contract has been terminated pursuant to ARTICLE XI(b), and (2) Contractor is obligated to make production payments to the Government pursuant to ARTICLE VIII, and (3) at the time notice of exercise of the option by the Government hereinafter referred to is given, the reduction plant, including all additions, renewals and improvements thereof and thereto, is and has been substantially idle for a continuous period of at least ninety (90) days immediately prior to the receipt of such notice (but not including in the computation of such period any time during which conditions of force majeure, as defined in ARTICLE XII exist) then the Government shall have the option to purchase, as a group, the reduction plant, the alumina plant and the bauxite facilities from Contractor, at a price calculated as set forth below, but shall have the option to exclude from such purchase any of such facilities for which a termination payment has been made hereunder. The Government's option shall be exercised by delivering a written notice to Contractor of its election to exercise such option, stating the date it shall become effective, which date shall not be less than ninety (90) days from the date of its receipt by Contractor.

(b) If Contractor, in good faith, before the effective date of the option, places the reduction plant in substantial operation, then the Government's exercise of its option to purchase shall become without effect, but the Government shall thereafter have the option to purchase such plant if, at a later date, all of the conditions set forth in subparagraph (a) of this ARTICLE recur, subject to the same terms and conditions of subparagraphs (a) and (b) of this ARTICLE XV.

(c) For the purpose of subparagraphs (a) and (b), the reduction plant shall be deemed to be substantially idle unless such plant is producing at least one-fourth of the aggregate capacity referred to in ARTICLE II(1)(a), and substantial operation of the reduction plant shall consist of the production of at least one-fourth of such aggregate capacity.

(d) The purchase price for the facilities purchased shall be such amount as shall fully reimburse Contractor for the entire cost of such facilities after deducting from such cost the profit or adding thereto the loss, as the case may be, resulting from the operation and maintenance of said facilities from the date of their initial operation to the effective date of the exercise of the option.

In computing the purchase price, the following adjustments shall be made and the principles herein stated shall be followed:

1. There shall be deducted from the cost of such facilities the amount of termination payments paid by the Government to Contractor on account of said facilities, less production charges paid by Contractor on account of said facilities.

2. In determining Contractor's profit or loss: (i) Amortization, depletion and depreciation of said facilities which has actually been taken shall be subtracted from the cost of operations; (ii) The cost of operations shall include all costs of starting up, shutting down and of maintaining said facilities in stand-by condition, including all costs of cancelling commitments resulting from shutdowns; (iii) The costs of operation shall include a charge for any materials furnished by Contractor for operation of said facilities at fair market prices but not less than Contractor's cost of furnishing same (including applicable depreciation and depletion at normal rates) plus a reasonable profit; (iv) There shall be deducted from the profit of each year, or added to the loss of each year of operating said facilities, a pro rata share of the general administrative and selling expenses, and said expenses shall be prorated in the proportion which the net sales and the value of intracompany and intercompany transfers of products produced by the reduction plant bear to the total net sales and the value of intracompany and intercompany transfers of Contractor and its wholly-owned

subsidiaries for such year, provided that in calculating the foregoing proportion with respect to selling expenses, sales to the Government under this Contract shall be excluded; (v) Any intracompany or intercompany sales or transfers shall be deemed to have been made at Contractor's current market price.

3. Contractor's profit or loss in the fabrication of any aluminum produced at the reduction plant shall be excluded from all computations of the purchase price of said plant, it being understood that neither the profit nor loss resulting from the operation of any of the Contractor's facilities, other than those being purchased by the Government pursuant to this option, is to be taken into account in determination of the purchase price.

4. There shall be deducted from such purchase price any tax benefit which may be realized by Contractor as a result of the deduction by Contractor of any net operating loss attributable to any of such facilities (computed with the deduction of depreciation or amortization pursuant to the provisions of Section 168 of the Internal Revenue Code as actually allowed for the purposes of computing Contractor's Federal income and excess profits tax liabilities) from net income from other operations of the Contractor.

5. It is the intent of the parties that Contractor shall be fully reimbursed for all of its expenditures as hereinabove defined for the construction, acquisition, maintenance, operation and shutdown of the facilities purchased, without profit or loss to Contractor (excluding profit or loss from the production of raw materials and the fabrication of aluminum), as if Contractor had never owned said facilities. If payment of said purchase price does not so reimburse Contractor because of taxes payable as a result of receipt thereof, then the purchase price shall be adjusted so that Contractor is so reimbursed without profit or loss as if Contractor had never owned or operated the said facilities.

(e) As promptly as possible after the receipt of notice of the exercise of the option, the parties shall compute and agree upon the purchase price. Upon the effective date of the option, Contractor shall execute and deliver to the Government a deed to all of said property.

Contractor shall be obligated to convey only such title to the property as it or its subsidiaries hold at the time it receives the notice from the Government exercising the option, except that the property shall be conveyed free and clear of all liens and encumbrances for indebtedness incurred by Contractor, together with all necessary and useful easements, rights of access, rights of way, and other rights, over, to, across, on and under any real property owned by Contractor in the vicinity, which are reasonably needed and are requested by the Government to remove, alter, add to, improve, operate, or maintain the real and personal property so transferred. At the same time Contractor shall assign and transfer to the Government such contracts relating to the operation of such facilities as it has the right to assign and transfer and upon such assignment and transfer the Government shall assume all obligations for the further performance thereof. The purchase price shall become due and payable upon delivery of the deed of Contractor to the Government.

ARTICLE XVI.

General Services Administration.

As used herein, the term "General Services Administration" means the General Services Administration, United States Government, and said Administration's successors in function.

ARTICLE XVII.

Performance by Subsidiaries.

All or any part of the obligations of Contractor under this Contract may be performed by and in the name of any wholly owned domestic subsidiary corporation or corporations of Contractor, and operations outside of the United States, its territories and possessions by domestic or foreign subsidiaries, *provided*, that Contractor guarantees such performance, and in such event at Contractor's request, any payment with respect to such portion of this Contract so performed by the subsidiary shall be made to such subsidiary. It is further understood that Contractor may conduct its sales of aluminum through any sales

subsidiary corporation or corporations and that in such event, for the purposes of this Contract, the published prices of such subsidiary sales corporation or corporations or of Contractor, whichever shall be lower, shall be deemed the published prices of Contractor, and sales by such sales subsidiary corporation or corporations shall be considered the sales of Contractor.

ARTICLE XVIII.

Delivery of Ingot or Billet.

In the event Contractor installs equipment at the reduction plant for the conversion of any of the capacity of such plant from pig to ingot or billet, Contractor shall be obligated to deliver aluminum ingot or billet to the Government or to non-integrated users during any period to the extent of orders received under the terms of this Contract, but not to exceed the quantity of ingot or billet which Contractor is reasonably able to produce with the equipment installed at the reduction plant during such period.

ARTICLE XIX.

Points and Terms of Delivery.

Contractor shall deliver aluminum to the Government at the delivery point within the continental United States specified in each order of the Government given pursuant to the terms of this Contract. Such delivery point may be f.o.b. point of origin (or shipping point); f.o.b. Contractor's plant (warehouse or other facility) point of origin (or shipping point); f.o.b. point of origin (or shipping point), freight prepaid, f.o.b. point of origin (or shipping point), freight allowed; f.o.b. destination; or f.o.b. destination within buyer's premises; *provided,* that such delivery point is in accordance with Contractor's terms and conditions applicable to the contract price in effect at the time of delivery. A delivery point other than in accordance with Contractor's terms and conditions applicable to the contract price in effect at time of delivery may be specified upon the mutual consent of the parties. Contractor shall be responsible for each shipment of aluminum covered by this Contract until it is delivered at the designated delivery point,

regardless of the point of inspection. When delivery at that point has been effected, then all risk of loss, including without limitation claims for losses and damages in connection with care and handling of the metal thereafter, shall be deemed to have passed from Contractor to the Government.

ARTICLE XX.

Inspection.

(a) All aluminum delivered to the Government pursuant to this Contract shall be subject to inspection and test by the Government, to the extent practicable at all times and places including the period of manufacture, and in any event prior to final acceptance.

(b) In case any such aluminum is defective in material or workmanship or otherwise not in conformity with the requirements of this Contract, the Government shall have the right either to reject it (with or without instruction as to its disposition), or to require its replacement. Aluminum which has been rejected or required to be replaced shall be removed, as requested by the Government, by and at the expense of Contractor promptly after notice, and shall not again be tendered for acceptance unless the former tender and either the rejection or requirement of replacement is disclosed. If Contractor fails to properly remove such aluminum when requested by the Government, and to proceed promptly with the replacement thereof, the Government at its option may (1) by contract or otherwise replace such aluminum and charge to Contractor the cost occasioned the Government thereby, or (2) terminate the right of Contractor to make delivery of the amount of aluminum so rejected for default, or (3) accept the aluminum so rejected at an appropriate reduction of the contract price.

(c) If any inspection or test is made by the Government on the premises of Contractor, Contractor without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the Government inspectors in the performance of their duties. If Government inspection or test is made at a point other than the premises of Contractor, it shall be at the expense of the Government; *provided,* That in case of rejection the Government shall not be

liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Government shall be performed in such a manner as not to unduly delay the work. The Government reserves the right to charge to Contractor any additional cost of Government inspection and test when aluminum is not ready at the time such inspection and test is requested by Contractor. Acceptance or rejection of the aluminum shall be made as promptly as practicable after delivery, but failure to inspect and accept or reject aluminum shall neither relieve Contractor from responsibility for such aluminum as is not in accordance with the contract requirements nor impose liability on the Government therefor.

(d) The inspection and test by the Government of any aluminum sold hereunder or lots thereof does not relieve Contractor from any responsibility regarding defects or other failures to meet the contract requirements which may be discovered prior to acceptance. Final acceptance shall be conclusive except as regards latent defects, fraud, or such gross mistakes as amount to fraud.

(e) Contractor shall provide and maintain an inspection system acceptable to the Government covering the aluminum sold hereunder. Records of all inspection work by Contractor shall be kept complete and available to the Government during the performance of this Contract and for such longer period as may be specified elsewhere in this Contract.

ARTICLE XXI.

Buy American Act.

Contractor agrees that there will be delivered under this Contract only such unmanufactured articles, materials, and supplies (which term "articles, materials, and supplies" is hereinafter referred to in this ARTICLE XXI as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. Pursuant to the Buy American Act, as amended (41 U. S. Code 10 a-d), the foregoing provision shall not apply (i) with respect

to supplies excepted by GSA from the application of that Act, (ii) with respect to supplies for use outside the United States, (iii) with respect to the supplies to be delivered under this Contract, which are of a class or kind determined by the GSA not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (iv) with respect to such supplies, from which the supplies to be delivered under this Contract are manufactured, as are of a class or kind determined by the GSA not to be mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, provided that this exception (iv) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

It is hereby determined for the purpose of this Contract that bauxite for the manufacture of primary aluminum is not mined, produced or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

ARTICLE XXII.

Prison Labor Not To Be Employed.

In connection with the performance of work under this Contract, Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE XXIII.

The Eight-Hour Law of 1912.

This Contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912, as amended (40 U. S. Code 324-326), and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912, as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this Contract, in the employ of Contractor or any subcontractor contracting for any part of the said work, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every such laborer and mechanic employed by Contractor or any subcontractor engaged in the performance of this Contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed upon Contractor for each such laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this clause; and all penalties thus imposed shall be withheld for the use and benefit of the Government.

ARTICLE XXIV.

The Walsh-Healey Act.

If this Contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed $10,000 and is otherwise subject to the Walsh-Healey Public Contracts Act, as amended (41 U. S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XXV.

Nondiscrimination in Employment.

In connection with the performance of work under this Contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, religion, color or national origin. The aforesaid provision shall include, but not be limited to, the following: Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of the nondiscrimination clause.

The Contractor further agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

This ARTICLE shall not apply to the performance of work outside the United States, its territories and possessions where no recruitment of workers within the limits of the United States, its territories or possessions is involved.

ARTICLE XXVI.

Members of Congress.

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Contract, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this Contract if made with a corporation for its general benefit.

ARTICLE XXVII.

Covenant Against Contingent Fees.

Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this Contract upon an agreement or understanding for a commission, percentage, brokerage, or

contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by Contractor for the purpose of securing business. For breach or violation of this warranty, the Government shall have the right to annul this Contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

ARTICLE XXVIII.

Performance During Disputes.

In the event of any dispute arising under this Contract, the Contractor shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of this Contract.

ARTICLE XXIX.

Examination of Records.

(a) The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under this Contract, have access to and the right to examine any directly pertinent books, documents, papers and records of the Contractor involving transactions related to this Contract.

(b) The Contractor further agrees to include in all his subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under the subcontract, have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor involving transactions related to the subcontract. The term "subcontract" as used in this clause excludes (i) purchase orders not exceeding $1,000 and (ii) subcontracts or purchase orders for public utility services at rates established for uniform applicability to the general public.

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ARTICLE XXX.

Descriptive Headings.

The table of contents and the descriptive headings of the several ARTICLES of this Contract are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

ARTICLE XXXI.

Controlling Statute.

This Contract is entered into pursuant to the Defense Production Act of 1950, as amended (Public Law 774, 81st Congress); Public Laws 69, 96 and 429, 82d Congress; Public Law 95, 83d Congress; Public Laws 119 and 295, 84th Congress.

IN WITNESS WHEREOF, the parties hereto have executed this contract in several counterparts.

UNITED STATES OF AMERICA

(SEAL)

By (signed) A. J. WALSH

A. J. WALSH
Commissioner, Emergency Procurement Service,

GENERAL SERVICES ADMINISTRATION

HARVEY MACHINE CO., INC.

(SEAL)

By (signed) LEO M. HARVEY
President

Contract No. 14-03-001-11964
9-7-55

Trust Agreement

EXECUTED BY THE

UNITED STATES OF AMERICA
DEPARTMENT OF THE INTERIOR

ACTING BY AND THROUGH THE

BONNEVILLE POWER ADMINISTRATOR

AND

HARVEY MACHINE CO., INC.

providing for the construction of certain facilities for the transmission of electric energy to the Company's plant

Dated, September 13, 1955

This TRUST AGREEMENT, executed September 13, 1955, by the UNITED STATES OF AMERICA, Department of the Interior (hereinafter called "the Government"), acting by and through the BONNEVILLE POWER ADMINISTRATOR (hereinafter called "the Administrator"), and HARVEY MACHINE COMPANY., INC. (hereinafter called "the Company"), a corporation organized and existing under the laws of the State of California,

WITNESSETH:

WHEREAS the Company is building an aluminum reduction plant (hereinafter called "the Company's plant") in the vicinity of The Dalles, Oregon, and the parties hereto are executing simultaneously with this agreement a power sales contract (designated as Contract No. 14-03-001-11965) providing for purchase by the Company of electric energy and reactive power with which to operate said plant; and

WHEREAS the parties hereto are executing simultaneously with this agreement a transmission agreement (designated as Contract No. 14-03-001-11963) providing for the delivery to the Company at The Dalles Aluminum substation, electric energy and reactive power made available to the Government by the Company at the point of delivery specified herein; and

WHEREAS the Government does not have funds available for constructing the facilities which are required to transmit such electric energy and reactive power from the Government's Big Eddy switching station to The Dalles Aluminum substation as provided in said transmission agreement, and the Company is willing to pay the cost of construction of such facilities, the title to and ownership of such facilities, when completed, to vest in the Government; and

WHEREAS the Administrator is authorized by Order No. 2563 dated May 2, 1950, and Order No. 2753 dated April 7, 1954, of the Secretary of the Interior to dispose of electric energy generated at various federal hydroelectric projects in the Northwest pursuant to the specific statutory authority as to each of such projects designated in Order No. 2753; and

WHEREAS certain statutes authorize the Administrator to enter into such contracts, agreements, and arrangements upon such terms and conditions and in such manner as he may deem necessary and to acquire, by purchase, lease, condemnation, or donation, such real and personal property or any interest therein, including lands, easements, rights-of-way, franchises, electric transmission lines, substations, and facilities and structures appurtenant thereto as the Administrator finds necessary or appropriate to carry out the purposes of the Bonneville Project Act;

NOW, THEREFORE, the parties hereto mutually agree that the trust herein referred to was created upon and subject to the terms, provisions, and covenants, as follows:

1. *Term of Agreement.* Each of the provisions of this agreement will be effective at the time of institution of the trust fund mentioned in section 2 hereof, and shall continue in effect until fully performed.

2. *Trust Fund.*

(a) The Company agrees to provide the Government with an amount of moneys, to be held as a trust fund, sufficient to enable the Government to defray the reasonable expense and cost of performing the duties imposed upon the Government by section 3 of this trust agreement. All moneys received by the Government, as aforesaid, together with all moneys, if any, advanced to it in trust under any other provisions of this agreement, will be placed in a trust account in the United States Treasury subject to withdrawal as provided in 31 U. S. C. A. §§ 725r and 725s, for payment of the expenses and cost of performing the duties imposed on the Government by this agreement. The Company will advance approximately $2,038,000 under this section, as soon as reasonably practicable but in no event later than February 1, 1956. The date upon which said payment is made shall be the date on which the trust fund is established. If at any time thereafter the Administrator reasonably estimates that the balance in said trust fund is insufficient to pay the expense and cost of completing performance of such duties, the Company will advance to the Government, when requested by the Administrator and in such installments as may be specified by him such additional moneys as he so estimates will be required to complete the performance of such duties.

(b) In lieu of the payment of moneys or a portion thereof as provided by subsection (a) of this section, the Company may at its option and at its expense, furnish all or part of the materials, equipment, or supplies required by the Government in the performance of the duties imposed upon it by this agreement to construct and install the facilities described in section 3. Such option must be exercised by notice in writing to the Government prior to the time the Company is required to advance the first installment of moneys as provided by subsection (a) above, and if so exercised, the amount of moneys to be so provided by the Company will be reduced by the Government's estimated cost of the materials, equipment, or supplies to be furnished by the Company as stated in their notice of intention to exercise the option. Any such materials, equipment, or supplies so furnished by the Company must meet the Government's standards and specifications and shall be inspected prior to acceptance by the Government's inspectors when considered by the Government to be necessary or desirable and must be delivered to the Government at the times required by the Government's design and construction schedule and the place specified by the Administrator. Any delay in the delivery of materials, equipment, or supplies furnished by the Company shall excuse the performance of the Government's duties hereunder and shall entitle the Government to a reasonable extension of time, based upon the extent of such delay, to complete its performance.

3. *Construction of Facilities.* The Administrator will, as soon as it is reasonably practicable after the establishment of the trust fund provided for by this agreement, design and plan all facilities required to effect the transmission of electric energy to the Company's Plant from the 115 kv bus in the Government's Big Eddy switching station, and will proceed diligently to construct, in accordance with such plan and design, all such facilities, including the construction of one 115 kv terminal position in the Government's Big Eddy switching station; one 115 kv transmission line from said switching station to the Government's The Dalles substation; three 115 kv terminal positions in said substation; a 150,000 kva substation (to be known as "The Dalles Aluminum substation"), two 115 kv transmission lines between the Government's The Dalles substation and the The Dalles Aluminum substation; and including such other facilities and equipment as are

necessary for the transmission of electric energy over and through such transmission lines, terminal positions, and substations. The Administrator will furnish all labor required to complete such design, construction, and installation, and will provide all materials, supplies, and equipment not furnished by the Company which are required in the construction of such facilities. The Administrator shall construct, install, test and adjust such facilities and equipment in whole or in part, by force account, by contract, or by both, in the same manner and subject to the same limitations as if he were expending Government funds.

Subject to the provisions of section 2 above and the other terms and limitations of this agreement, the Government agrees to complete the construction and installation of the facilities provided for in this agreement so as to be able to deliver to the Company the electric power purchased by it from the Government under the terms of Contract No. 14-03-001-11965, within not to exceed 18 months from the establishment of the trust fund provided for by this agreement; *provided, however,* such time shall be extended by the period of such delay, if any, as is occasioned by events which the Government could not reasonably be expected to avoid by the exercise of reasonable diligence.

4. *Ownership of Facilities and Equipment.* Title to and ownership of all facilities and equipment constructed and installed pursuant to section 3 hereof shall be and remain in the Government at all times.

5. *Accounting.*

(a) Within a reasonable time after completion of the work for which the deposit in trust has been made under the terms hereof, the Administrator will make a full accounting to the Company showing the receipts credited to, and the costs and expenses charged against, said trust fund. The Government will remit to the Company any unexpended balance of said trust fund within a reasonable time after accounting is made as herein provided.

(b) If at any time hereafter the Administrator estimates that the balance in said trust fund is insufficient to pay the expense and cost of completing performance of the duties specified in section 3 hereof, the Administrator will give notice thereof to the Company, and if the

Company then so requests, the Administrator will, within a reasonable time thereafter, make a full accounting to the Company showing the receipts credited to, and the costs and expenses charged against, said trust fund. The Administrator will, at the same time, submit a statement to the Company showing in detail his estimate of the additional moneys required to pay the expense and cost of completing performance of such duties.

(c) The costs and expenses of performing the work and furnishing the materials mentioned in section 3 hereof shall be proper charges against said trust fund, and shall be determined by charging the cost elements exclusive of interest in the same manner as if Government funds were being expended, including, among other items, labor, unemployment compensation, and social security contributions, annual and sick leave obligations, equipment use, tool and stores expense, expense of transportation of any materials and equipment required for such construction which is not included as stores expense, expense and cost incurred to make the accounts provided for in this section, and overheads reasonably allocable thereto.

6. *Assignment.*

(a) The Administrator hereby consents to the assignment of this contract by the Company subject to the following provisions:

(1) No such assignment shall be effective until the Company's plant is constructed and ready for regular operation and has been acquired by said assignee;

(2) No such assignment, other than to a wholly-owned subsidiary of the Company, shall be effective unless it is made pursuant to the terms of a loan agreement under which the Company shall have obtained financing for the construction of the Company's plant, and provided such terms are for the purpose of furnishing security for such financing;

(3) Said assignment shall be made by the Company and shall be accepted by said assignee, subject to the express condition that said assignee shall be thereafter bound by the terms of this contract as fully as if the assignee alone had executed said power sales contract in the place of the Company; and

(4) The Company shall at all times remain bound by the terms of this contract as fully as if said assignment had not been made.

(b) The Company will submit to the Administrator a duplicate original of any assignment so made by it, together with a duplicate original of the acceptance thereof by said assignee, showing compliance with the provisions of this section.

7. *Interest of Member of Congress.* No Member of or Delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this agreement or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this agreement if made with a corporation for its general benefit.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in several counterparts.

UNITED STATES OF AMERICA
Department of the Interior

(SEAL)

By (signed) WM. A. PEARL
Bonneville Power Administrator

HARVEY MACHINE CO., INC.

(SEAL)

By (signed) LEO M. HARVEY

Attest:

(signed) KEITH LINDEN
Ass't Secretary

Contract No. 14-03-001-11963
9-7-55

Transmission Agreement

EXECUTED BY THE

UNITED STATES OF AMERICA
DEPARTMENT OF THE INTERIOR

ACTING BY AND THROUGH THE

BONNEVILLE POWER ADMINISTRATOR

AND

HARVEY MACHINE CO., INC.

Dated, September 13, 1955

This TRANSMISSION AGREEMENT, executed September 13, 1955, by the UNITED STATES OF AMERICA (hereinafter called "the Government"), Department of the Interior, acting by and through the BONNEVILLE POWER ADMINISTRATOR (hereinafter called "the Administrator"), and HARVEY MACHINE CO., INC. (hereinafter called "the Company"), a corporation organized and existing under the laws of the State of California,

WITNESSETH:

WHEREAS the parties hereto are executing simultaneously with the execution of this agreement a power sales contract (designated as Contract No. 14-03-001-11965) which provides for the sale of firm and interruptible power to the Company at the Big Eddy point of delivery (as therein defined) to be used in the Company's aluminum reduction plant (hereinafter called "the Company's plant"), which is being constructed in the vicinity of The Dalles, Oregon; and

WHEREAS the Company desires that the Government deliver to the Company at The Dalles Aluminum Substation point of delivery, hereinafter defined, the electric energy and reactive power purchased by the Company under said Contract No. 14-03-001-11965 and made available to the Government by the Company at the Big Eddy point of delivery; and

WHEREAS the parties hereto are executing simultaneously with the execution of this agreement a Trust Agreement (designated as Contract No. 14-03-001-11964) to enable the Government to build, at the expense of the Company, the transmission facilities necessary for such delivery; and

WHEREAS the Government is willing to transmit such electric energy and reactive power to the Company at The Dalles Aluminum Substation point of delivery on the terms herein stated; and

WHEREAS the Administrator is authorized by Order No. 2563 dated May 2, 1950, and Order No. 2753 dated April 7, 1954, of the Secretary of the Interior to dispose of electric energy generated at various federal hydroelectric projects in the Northwest pursuant to the specific statutory authority as to each of such projects designated in Order No. 2753; and

WHEREAS certain statutes authorize the Administrator to enter into such contracts, agreements, and arrangements upon such terms and conditions and in such manner as he may deem necessary;

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. *Term of Agreement.* Subject to the other provisions contained herein, each of the provisions of this agreement shall be effective for the term commencing at the time the facilities to be constructed under the terms of said Trust Agreement (Contract No. 14-03-001-11964) are completed and ready for regular operation and ending at the time of the termination of said power sales contract (Contract No. 14-03-001-11965).

2. *Transmission of Power and Amount.* Subject to the other provisions contained herein, the Government will make available to the Company, during each half-hour in the term hereof, at The Dalles Aluminum Substation point of delivery such amounts of electric energy and reactive power (less transmission and transformation losses) as are made available by the Government to the Company at the Big Eddy point of delivery, in accordance with the provisions of said Contract No. 14-03-001-11965.

The factors to be used for determination of the transmission and transformation losses mentioned in this section shall be agreed upon by representatives designated by the parties hereto.

3. *Provisions Relating to Delivery.* Subject to the other provisions of this contract electric energy shall be made available hereunder in the form of three-phase current, alternating at a frequency of approximately sixty (60) cycles per second.

Deliveries thereof at the point of delivery shall be made directly over the Government's facilities at the approximate voltage and during the period specified for such point. The amounts of electric energy and reactive power so delivered at such point during each month, and of the thirty-minute integrated demands for such electric energy, shall be the amounts determined from measurements made by the Government's watt-hour, var-hour, and recording demand meters, respectively,

installed or to be installed so as to record the flow of electric energy and reactive power at the place and in the circuits hereinafter specified:

THE DALLES ALUMINUM SUBSTATION POINT OF DELIVERY:

Location: the point in The Dalles Aluminum substation, to be hereinafter constructed by the Government in accordance with the provisions of said Contract No. 14-03-001-11964, where the 13.8 kv facilities of the parties hereto are to be connected;

Voltage: at 13.8 kv;

Period: at all times during the term hereof;

Metering: in the 13.8 kv circuits over which such delivery is to be made.

4. *Amount of Power Delivered.*

(a) If the Government does not restrict the amount of electric energy which will be delivered to the Company under said Contract No. 14-03-001-11965, the thirty-minute integrated demands at which electric energy is transmitted hereunder in accordance with section 2 hereof, will be the amounts determined as provided in section 3 hereof.

(b) If the Government restricts the amount of electric energy which will be delivered to the Company under said Contract No. 14-03-001-11965, the thirty-minute integrated demands at which electric energy is transmitted hereunder, during each half-hour the restriction is in effect, shall be the number of kilowatts which the Administrator determines he will make available to the Company during such half-hour at the Big Eddy point of delivery in accordance with the provisions of said Contract No. 14-03-001-11965, after such number of kilowatts is adjusted for losses to The Dalles Aluminum Substation point of delivery.

5. *Payment for Transmission of Power.*

(a) Except as it is hereinafter provided, as compensation and in full payment by the Company for the services of the Government and

the use of its facilities in making electric energy and reactive power available as provided herein, the Company will pay the Government for each month in the term hereof an amount which is equal to the largest product obtained by:

(1) multiplying together the compensation factor and the compensation demand for such month after increasing such compensation demand by one percent (1%) for each one percent (1%) or major fraction thereof by which the average power factor, at which electric energy is delivered hereunder during such month, is less than 0.95 lagging; and

(2) multiplying together the compensation factor and the compensation demand for each of the eleven (11) immediately preceding months.

(b) The "compensation factor" mentioned in subsection (a) of this section shall be $0.079 for each month in the term hereof until changed pursuant to section 22 of Exhibit A attached hereto; *provided, however,* that such compensation factor shall be reviewed every five (5) years by a committee composed of a member appointed by the Administrator and a member appointed by the Company and adjusted to conform with the Government's cost of operating and maintaining like facilities. If such members are unable to agree upon a compensation factor they shall appoint a third member who shall have no direct interest in the controversy. The determination of a compensation factor made by the committee, or a majority of its members, shall be binding upon the parties.

(c) The "compensation demand" mentioned in subsection (a) of this section, for each month in the term hereof, shall be the largest of the thirty-minute integrated demands at which electric energy is delivered by the Company hereunder during such month, determined as provided in section 4 hereof after eliminating all abnormal nonrecurring demands resulting from emergency conditions.

(d) If the Government reduces the amount of electric energy to be delivered to the Company in accordance with the provisions of said Contract No. 14-03-001-11965 for any period during the term hereof,

the payment to be made by the Company hereunder for the month in which the reduction occurs shall be determined as provided in subsection (a) of this section after reducing all compensation demands of the Company prior to such period by the amount of the reduction.

6. *Assignment.*

(a) The Administrator hereby consents to the assignment of this contract by the Purchaser subject to the following provisions:

(1) no such assignment shall be effective until the Purchaser's plant is constructed and ready for regular operation and has been acquired by said assignee;

(2) no such assignment, other than to a wholly-owned subsidiary of the Purchaser, shall be effective unless it is made pursuant to the terms of a loan agreement under which the Purchaser shall have obtained financing for the construction of the Purchaser's plant, and provided such terms are for the purpose of furnishing security for such financing;

(3) said assignment shall be made by the Purchaser and shall be accepted by said assignee, subject to the express condition that said assignee shall be thereafter bound by the terms of this contract as fully as if the assignee alone had executed this contract in the place of the Purchaser; and

(4) the Purchaser shall at all times remain bound by the terms of this contract as fully as if said assignment had not been made.

(b) The Purchaser will submit to the Administrator a duplicate original of any assignment so made by it, together with a duplicate original of the aceptance thereof by said assignee, showing compliance with the provisions of this section.

7. *Standard Provisions.* The Standard Transmission Provisions (S Tmn P Form-2), attached hereto as Exhibit A, are hereby made a part of this agreement. The Government shall be the "transferor"

mentioned in said Exhibit A, and the Company shall be the "transferee" therein mentioned.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in several counterparts.

UNITED STATES OF AMERICA
Department of the Interior

(SEAL)

By (signed) WM. A. PEARL
Bonneville Power Administrator

HARVEY MACHINE CO., INC.

(SEAL)

By (signed) LEO M. HARVEY

Attest:

(signed) KEITH LINDEN,
Ass't. Secretary.

EXHIBIT A

S Tmn P Form-2
(1-4-51)

STANDARD TRANSMISSION PROVISIONS

1. *Interpretation.*

(a) The provisions in the document to which these Standard Transmission Provisions are attached as an exhibit shall be deemed to be a part of this exhibit for the purpose of determining the meaning of any provision contained in this exhibit. If a provision in such document is in conflict with a provision contained in this exhibit, the former shall prevail.

(b) Nothing contained in this agreement shall, in any manner, be construed to abridge, limit, or deprive any party thereto of any means of enforcing any remedy, either at law or in equity, for the breach of any of the provisions thereof which it would otherwise have.

2. *Definitions.* As used in this contract:

(a) the words "month" and "billing month" shall mean the period commencing at the time when the meters mentioned in this agreement are read by the Administrator and ending approximately thirty (30) days thereafter when a subsequent reading of such meters is made by the Administrator;

(b) the words "thirty-minute integrated demand" shall mean the number of kilowatts which is equal to the product obtained by multiplying by two the number of kilowatt-hours delivered at any point during any clock half-hour.

3. *Prior Demands.* In determining any credit demand mentioned in, or money compensation to be paid to the Government under, this agreement for any month, thirty-minute integrated demands at which electric energy was delivered by the Government for the account of the other party to this agreement prior to the date upon which the agreement takes effect shall be considered in the same manner as if this agreement had been in effect.

4. *Measurements.* Except as it is otherwise provided in section 5 of this exhibit, each measurement of each meter mentioned in this agreement shall be the measurement automatically recorded in writing by such meter, but if none, shall be the measurement of such meter as reported by the Administrator.

5. *Adjustment for Inaccurate Metering.*

(a) If any meter mentioned in this agreement fails to register, or if the measurement made by such meter during a test made as provided in this exhibit varies by more than two per cent (2%) from the measurement made by the standard meter used in such test, adjustment shall be made correcting all measurements made by such inaccurate meter during the period hereinafter stated. Such corrected measurements shall be used to recompute the amounts of any electric energy to be made available, of any credits in an exchange energy account to be made, and of any money compensation to be paid, to the Government as provided in this agreement, for (1) the actual period during which such inaccurate measurements were made if such period can be determined, or (2) if not, the period immediately preceding a test of such inaccurate meter which is equal to one-half the time from the date of the last preceding test of such meter; *provided, however,* that the period for which such recomputations are to be made shall not exceed six (6) months.

(b) If the credit theretofore made to the Government in the exchange energy account varies from the credit to be made as recomputed, the amount of the variance will be credited in such exchange energy account to the party entitled thereto.

(c) If the money compensation theretofore paid to the Government varies from the money compensation to be paid as recomputed, the amount of the variance will be paid to the party entitled thereto within thirty (30) days after the recomputation is made; *provided, however,* that the other party to this agreement may deduct such amount due it from any money compensation which thereafter becomes due to the Government under this agreement.

(d) If the amount of electric energy made available to the Government under this agreement by the other party varies from the amount to be made available as recomputed, the amount of the variance will be credited in such exchange energy account to the party entitled thereto.

6. *Combining Deliveries Coincidentally.* If it is provided in this agreement that the amounts of electric energy and reactive power,

delivered at any point of delivery, and of the thirty-minute integrated demands for such electric energy, for any period, shall be the amounts thereof determined by combining deliveries at two or more metering points coincidentally:

(a) the amounts of such electric energy and reactive power so delivered at such point of delivery during such period shall be the respective sums computed by adding together the amounts of electric energy and reactive power, respectively, which flow during such period at such metering points, determined as provided in this agreement; and

(b) the amount of each thirty-minute integrated demand for such electric energy at such point of delivery shall be the sum computed by adding together the integrated demands for such thirty-minute period at such metering points, determined as provided in this agreement.

7. *Reducing Compensation for Interruptions.* If delivery of electric energy under this agreement is interrupted or reduced at any point of delivery pursuant to section 10 of this exhibit, the amount, which would otherwise be due the Government for making electric energy available at such point during the month in which such interruption or reduction occurs, shall be appropriately reduced.

8. *Adjustment for Unbalanced Phase Demands.* If the transferee fails to make promptly the changes mentioned in section 13 of this exhibit, the Government may determine the registered demand of the transferee, at the point of delivery in question during each month thereafter until such changes are made, to be equal to the product obtained by multiplying by three (3) the largest of the thirty-minute integrated demands of the transferee on any phase at such point during such month. This section shall not apply with respect to any point of delivery where the current required to be supplied at such point is other than three-phase current.

9. *Power Factor.*

(a) The average power factor at which electric energy is delivered by the Government under this agreement at each point of delivery during each month in the term of this agreement will be the quotient obtained by dividing the number of kilowatt-hours of electric energy

delivered by the Government under this agreement at such point during such month by the square root of the sum of: (a) the square of such number of kilowatt-hours, and (b) the square of the number of kilovolt-ampere-hours, of reactive power delivered by the Government under this agreement at such point during such month.

(b) Except as it is otherwise specifically provided in this agreement, no adjustment will be made for power factor at any point of delivery described in this agreement while the reactive power delivered at such point is not measured.

10. *Continuity of Service.*

(a) The Government may temporarily interrupt or reduce deliveries of electric energy to the transferee if the Government determines that such interruption or reduction is necessary or desirable in case of system emergencies, or in order to install equipment in, make repairs, replacements, investigations, and inspections of, or perform other maintenance work on, the Government's electric system. Except in case of emergency, and in order that the transferee's operations will not be unreasonably interfered with, the Government will give the transferee notice of any such interruption or reduction, the reason therefor, and the probable duration thereof.

(b) If the operation of the transmission system of the Government is suspended, interrupted, or interfered with as the result of the occurrence of any event which is reasonably beyond the Government's control (including, but not limited to, the failure or breakdown of generating or transmission facilities, floods, fire, strikes, or acts of God or the public enemy), the Government, its officers, agents, and employees shall not be obligated to deliver electric energy and reactive power to any transferee, as provided in this agreement, during such time and to such extent as such suspension, interruption, or interference makes it reasonably impracticable to do so, and shall not be liable for any damages sustained by such transferee as a result of the failure to so deliver such electric energy and reactive power during such time.

11. *Changes in Demands or Characteristics.* The transferee will, whenever possible, give reasonable notice to the Government of any

unusual increase or decrease of its demands for electric energy on the Government's system, or of any unusual change in the load factor or power factor at which the transferee will take delivery of electric energy under this agreement. The transferee shall be liable for any damage to the Government's system which results from any such increase, decrease, or change made without the Government's consent.

12. *Electric Disturbances.* The transferee will not use the energy delivered under this agreement in such manner as to cause electric disturbances which may be reasonably expected to (a) cause damage to the Government's system or to systems connected with the Government's system, or (b) prevent the Government from serving other purchasers satisfactorily.

13. *Balancing Phase Demands.* The Government may, at any time during the term of this agreement require the transferee to make such changes of its system as are necessary so that the transferee's thirty-minute integrated demands on one phase at any point of delivery for any half-hour shall not exceed the integrated demand on any other phase at such point for the same half-hour by more than ten per cent (10%). This section shall not apply with respect to any point of delivery where the current required to be supplied at such point is other than three-phase current.

14. *Installation of and Measurements by Government's Meters.* The Administrator may at any time install a meter of the Government to make the measurements required for any computation or determination mentioned in this agreement, and if so installed such measurements shall be used thereafter in such computation or determination.

15. *Tests of Metering Equipment.* Each party to this agreement will, at its expense, test its metering equipment mentioned in this agreement at least once every two years, and, if requested to do so by the other party, will make additional tests or inspections of such metering equipment, the expense of which will be paid by such other party unless such additional tests or inspections show such metering equipment to be inaccurate. Each party will give reasonable notice of the time when any such test or inspection is to be made to the other party who may have representatives present at such test or inspection.

16. *Permits.*

(a) If any equipment or facilities of a party to this agreement is, or is to be by the terms of this agreement, located on the property of the other, a permit to install, test, maintain, inspect, replace, and repair during the term of this agreement, and to remove at the expiration of said term, such equipment and facilities, together with the right of ingress to and egress from the location thereof at all reasonable times in such term, is hereby granted by the other party.

(b) Each party shall have the right to read, at all reasonable times, any and all meters mentioned in this agreement which are installed on the property of the other.

17. *Ownership of Facilities.*

(a) Ownership of any and all equipment, and of all salvageable facilities, installed by a party to this agreement on the property of the other, shall be and remain in such party.

(b) Each party shall identify all movable equipment and, to the extent agreed upon by the operators of the parties, all other salvageable facilities which are installed by such party on the property of the other, by permanently affixing thereto suitable tags, stencils, stamps, or other markers plainly stating the name of the owner of property so identified.

18. *Transferee's Facilities.* The transferee will, at its expense, install such equipment as is necessary to limit the electric disturbances described in section 12 of this exhibit. All electric facilities installed by the transferee and connected with the Government's system shall conform to accepted modern practice and applicable state regulations, or, in the absence of applicable state regulations, to the specifications, rules, and regulations contained in the latest editions of, and supplements to, the National Electric Safety Code of the United States Bureau of Standards.

19. *Inspection of Transferee's Facilities.* The Government may, but shall not be obligated, to inspect the transferee's electric installation at any time, but such inspection, or failure to inspect, shall not render the Government, its officers, agents, or employees, liable or responsible

for any injury, loss, damage, or accident resulting from defects in such electric installation, or for violation of this agreement.

20. *Performance by Administrator.* The Administrator may, unless it is otherwise specifically provided in this agreement, perform any duty imposed on, or exercise any right vested in, him by this agreement, through or by such person or persons as he may designate for that purpose.

21. *Termination by Other Party.* The party other than the Government may, at any time, terminate the deliveries of electric energy and reactive power to be made under this agreement at any point of delivery by giving written notice to such termination. Such termination shall be effective at the time specified in such notice but not before the expiration of ten (10) days from 12 p. m. on the date such notice is received, and upon such termination the Government will not thereafter be obligated to make such deliveries under this agreement.

22. *Adjustment for Change of Conditions.* If changes in conditions hereafter occur which substantially affect any factor required by this agreement to be used in determining any credit in an exchange energy account to be made, money compensation to be paid, or amount of electric energy of reactive power to be made available, to the Government by the other party or maximum replacement demand, or average power factor mentioned in this agreement, such factor will be changed in a manner which will conform to such changes of conditions.

If, pursuant to the terms of the agreement establishing such exchange energy account, another rate is substituted for the rate to be used in settling the balance in such account, the number of kilowatt-hours to be credited to the Government in such account for each month as provided in this agreement, shall be changed for each month thereafter to the amount computed by multiplying such number of kilowatt-hours by 2.5 mills and dividing the resulting product by the currently effective substituted rate in mills per kilowatt-hour; *provided, however,* that if any credit of "two (2) kilowatt-hours for each kilowatt-hour" delivered by the Government is to be made in such account pursuant to the terms of this agreement, such credit shall not be so changed.

23. *Arbitration.* If the parties to this agreement do not agree on the determination of any question of fact hereinafter stated, a determination thereof will be made by a committee composed of a member appointed by the Administrator and a member appointed by the other party. If such members are unable to agree upon a determination of such question they shall appoint a third member who shall have no direct interest in the controversy. The determination of such question made by the Committee, or a majority of its members, shall be binding on the parties.

The questions of fact to be determined as provided in the preceding paragraph shall be: the correction of the measurements to be made as provided in section 5 of this exhibit; the amount of reduction in charges mentioned in section 7 of this exhibit were made "promptly"; whether an abnormal nonrecurring demand occurred and the amount and time thereof; any fact mentioned in the first sentence of section 11, and in sections 12 and 13 of this exhibit; whether the arrangements made by the transferee comply with section 18 of this exhibit; and whether changes in conditions mentioned in section 22 of this exhibit have occurred, and if so, the change to be made in the factor therein mentioned.

24. *Waiver of Default.* Any waiver at any time by any party to this agreement of its rights with respect to any default of any other party thereto, or with respect to any other matter arising in connection with such agreement, shall not be considered a waiver with respect to any subsequent default or matter.

25. *Notices and Computation of Time.* Any notice required by this agreement to be given to any party shall be effective when it is received by such party, and in computing any period of time from such notice, such period shall commence at 12 p. m. on the date of receipt of such notice.

26. *Interest of Member of Congress.* No Member of, or Delegate to Congress, or Resident Commissioner shall be admitted to any share or part of this agreement or to any benefit that may arise therefrom. Nothing, however, herein contained shall be construed to extend to such agreement if made with a corporation for its general benefit.

Contract No. 14-03-001-11965
9-7-55

Power Sales Contract

EXECUTED BY THE

UNITED STATES OF AMERICA
DEPARTMENT OF THE INTERIOR

ACTING BY AND THROUGH THE

BONNEVILLE POWER ADMINISTRATOR

AND

HARVEY MACHINE CO., INC.

providing for electric service at
The Dalles, Oregon

Dated, September 13, 1955

This **POWER SALES CONTRACT**, executed September 13, 1955, by the UNITED STATES OF AMERICA (hereinafter called "the Government"), Department of the Interior, acting by and through the BONNEVILLE POWER ADMINISTRATOR (hereinafter called "the Administrator"), and HARVEY MACHINE CO., INC. (hereinafter called "the Purchaser"), a corporation organized and existing under the laws of the State of California,

WITNESSETH:

WHEREAS the Administrator is authorized by Order No. 2563 dated May 2, 1950, and Order No. 2753 dated April 7, 1954, of the Secretary of the Interior to dispose of electric energy generated at various federal hydroelectric projects in the Northwest pursuant to the specific statutory authority as to each of such projects designated in Order No. 2753; and

WHEREAS the Defense Production Administration has certified the Purchaser for construction and operation of an aluminum reduction plant (hereinafter called "the Purchaser's Plant") as being necessary for defense; and

WHEREAS the Purchaser desires to purchase from the Government, at the site of The Dalles dam project, the electric energy requirements of the Purchaser's Plant for a term of twenty (20) years; and

WHEREAS the Big Eddy substation is the point designated by the Administrator for the delivery of at-site power available from The Dalles project; and

WHEREAS the parties hereto are executing simultaneously with this agreement a transmission agreement (designated as Contract No. 14-03-001-11963) providing for the delivery to the Purchaser at The Dalles Aluminum substation, electric energy and reactive power made available to the Government by the Purchaser at the point of delivery specified herein; and

WHEREAS the parties hereto are executing simultaneously with this agreement a trust agreement (designated as Contract No. 14-03-001-11964) providing for the Government to build, at the expense of the Purchaser, the transmission facilities necessary for delivery by the Government under said transmission agreement; and

WHEREAS the Administrator and the Purchaser on January 27, 1953 entered into a power sales contract (designated as Contract No. 14-03-001-9938) for the sale of firm and interruptible power by the Government, for use in the Purchaser's plant which contract was subsequently amended; and

WHEREAS the parties hereto desire to enter into this new power sales contract in substitution of said Contract No. 14-03-001-9938, as amended;

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. *Substitution of Contract.* Said Contract No. 14-03-001-9938, as amended, is hereby substituted by this contract as of the effective date hereof.

2. *Term of Contract.* Subject to the other provisions contained herein, each of the provisions of this contract shall be effective for the term of twenty (20) years from 12 p. m. on the date on which this contract is executed; *provided, however,* the Administrator may terminate this contract by giving written notice to the Purchaser at any time after it becomes reasonably certain that the Purchaser will not complete construction of its plant and have it ready for regular operation on the date specified in section 3 hereof, as the same may be extended.

It is understood that this contract may be amended or modified at any time by the mutual written consent of both parties.

3. *Construction of Purchaser's Plant.* The Purchaser shall proceed with the construction of its aluminum reduction plant, consisting of two (2) potlines having an aggregate capacity of about 54,000 short tons of aluminum per year, as soon as reasonably practicable but by no later than May 1, 1956, and such construction shall be completed as soon as reasonably practicable but by no later than May 1, 1958; *provided, however,* such dates shall be extended by a time equivalent to such delay, if any, as is occasioned by events which the Purchaser could not reasonably be expected to avoid by the exercise of reasonable diligence and foresight.

4. *Sale of Power and Amount Sold.*

(a) Subject to the other provisions contained herein, the Government shall make available to the Purchaser at the point of delivery specified in section 8 hereof, and the Purchaser shall purchase from the Government, firm power (as defined in section 1.1 of Exhibit B attached hereto) in the amount of the Purchaser's contract demand, and in addition thereto, its requirements up to 81,129 kilowatts of interruptible power (as defined in section 15.1 of said Exhibit B) as available. The Purchaser's contract demand (as defined in section 2.1 of said Exhibit B) shall be 40,563 kilowatts commencing at said time of initial delivery and at all times thereafter in the term hereof until increased pursuant to subsection (b) of this section and when so increased the said "40,563 kilowatts" shall thereafter read "60,845 kilowatts", and the figure "81,129 kilowatts" hereinabove appearing shall likewise read "60,845 kilowatts."

(b) The Administrator shall, at the earliest date that power is available for such purpose, increase the Purchaser's contract demand to 60,845 kilowatts, and shall give the Purchaser written notice specifying the effective date of such increase. The Administrator will not enter into any contract requiring deliveries of hydro-generated firm power to any industrial consumer if the Government would then be obligated to deliver to industrial consumers, before the Purchaser's contract demand is increased to 60,845 kilowatts, hydro-generated firm power in an amount exceeding the aggregate of:

(1) the number of kilowatts of firm power equal to the sum of the contract demands listed in the Industrial Requirements Schedule, attached hereto as Exhibit D, and hereby made a part of this contract;

(2) the number of kilowatts of firm power which is allocated by the Administrator for sale in Montana and Idaho to industrial consumers in those states;

(3) the number of kilowatts of firm power, if any, which is to be made available by the Government to industrial consumers from generating facilities constructed primarily for that purpose; and

(4) the number of kilowatts of firm power which the Government is obligated to make available to industrial consumers under agreements for the storage and exchange of water, under agreements for the sale of additional power made available for disposition by the Administrator because of water storage and other special arrangements or transmission integration, and under exchange and transfer agreements.

5. *Delivery of Interruptible Power.* Subject to the other provisions contained herein, if the Administrator determines at any time that either the supply of interruptible power is inadequate to enable the Government to deliver to the Purchaser the amount of interruptible power which is to be made available to it as provided in section 4 hereof, or the transmission facilities required to deliver such interruptible power are inadequate for that purpose, the Administrator may restrict deliveries of, and thereby limit the obligation of the Government under said section 4 to deliver, interruptible power to such amount, if any, and during such time or times as is then specified by the Administrator; *provided, however,* that, until the contract demand has been increased to 60,845 kilowatts as provided in subsection 4(b) hereof, such amount will not be less than 20,282 kilowatts unless and until delivery of all other interruptible power by the Administrator has been discontinued, except for delivery of interruptible power made pursuant to arrangements of the type specified in subdivision 4(b)(4) hereof.

If the Administrator restricts deliveries of firm and interruptible power hereunder to a specified amount during any period, the taking of deliveries thereof in excess of the amount so specified shall constitute a violation of this contract.

6. *Temporary Curtailment of Contract Demand and Payment Therefor.* The Purchaser may temporarily reduce its contract demand for firm power for any period of thirty (30) or more consecutive days by giving written notice to the Administrator at least thirty (30) days prior to the beginning of such period specifying the number of kilowatts of reduction in its contract demand for firm power for such period, subject to the following provisions:

(a) The Government shall not be obligated to make firm power available to the Purchaser during such period in an amount in excess of such contract demand for such period as so reduced.

(b) The amount of such reduction in contract demand for any period of curtailment shall not be less than ten percent (10%) of the Purchaser's contract demand provided for in section 4 hereof at the time immediately preceding the beginning of such period.

(c) The reduction for any such period (expressed in contract kilowatt-months) shall not exceed an amount which when added to the contract kilowatt-months of all previous reductions will be twenty-four percent (24%) of the contract kilowatt-months determined at that time as provided in subsection (d) of this section.

(d) The "contract kilowatt-months" on any date in the term hereof shall be the sum of the products computed by multiplying each contract demand stated in section 4 hereof by the number of months and fractions thereof during which such contract demand was, before such date, and is to be, after such date, in effect according to the provisions of said section 4, and in making such computations neither the amount of such contract demand nor the period during which it was, or is to be, in effect shall be reduced as the result of any reduction in contract demand made, or which could be made, under this section.

(e) For each month during the periods of reduction in contract demands the Purchaser shall pay the Administrator, in addition to the payment for power specified in section 7 hereof, the product obtained by multiplying:

(1) the charge on the "difference in the billing demands" mentioned in subsection (f) of this section (computed at the rate specified in Exhibit A attached hereto) by

(2) the one of the following factors which is applicable:

(i) 0.25, during the period when reductions (in contract kilowatt-months) total not more than eight percent (8%) of the contract kilowatt-months (determined as provided in subsection (d) of this section); or

(ii) 0.50, during the period when reductions total more than eight percent (8%) but not more than sixteen percent (16%) of such contract kilowatt-months; or

(iii) 0.75, during the period when reductions total more than sixteen percent (16%) but not more than twenty-four percent (24%) of such contract kilowatt-months.

(f) The "difference in billing demands" mentioned in subsection (e) of this section, for such month, shall be the remainder obtained by subtracting the billing demand for firm power for such month, determined as provided in subsection (b) of section 7 hereof, from a "billing demand" for such month determined in accordance with Billing Demand factors (1) and (4) of section 4 of said Exhibit A without taking into account the Purchaser's notice of reduction in the contract demand specified herein.

(g) Subject to the provisions of this section, the Purchaser may increase its contract demand as reduced under the provisions of this section to such amount, not exceeding the amount of the contract demand authorized by section 4 hereof, as is specified by the Purchaser:

(1) on such date in the period from June 1 to September 30 of any year as is specified by the Purchaser, if written request for such resumption is received from the Purchaser by the Administrator at least ninety (90) days before the beginning of such period;

(2) on such date in the period from October 1 of any year to May 31 of the following year as is specified by the Purchaser if written request for such resumption is received from the Purchaser by the Administrator at least ninety (90) days before the beginning of such period. The Administrator may permit a requested increase in contract demand to become effective on a date which is earlier than that specified above if he determines that he will have adequate firm power available for that purpose.

7. *Payment for Power Sold.*

(a) Subject to the other provisions contained herein, the Purchaser shall pay the Administrator for the firm and interruptible

power made available hereunder at the rate specified in Bonneville Wholesale Power Rate Schedule A-4 (as amended) and in accordance with the terms thereof and the General Rate Schedule Provisions (effective December 20, 1954). Such Schedule and Provisions, copies of which are attached hereto as Exhibits A and B, respectively, are hereby made a part of this contract except to the extent that they are modified by the terms and conditions of this contract. No decrease shall be made in the existing differential, namely, $3.00 per kilowatt year, between the rates, or the same type of rates, as now contained in said Schedule A-4 attached hereto as Exhibit A and Bonneville Wholesale Power Rate Schedule C-4, or any new rate schedule substituted therefor.

(b) For each month in the term hereof during which the Purchaser's contract demand for firm power has been temporarily reduced in accordance with section 5 hereof, the Purchaser's billing demand shall be determined in accordance with the provisions in said Exhibit A except that said Billing Demand factor (1) will be the Purchaser's contract demand for such month as so reduced, and before applying said Billing Demand factor (4) during the period of curtailment all measured demands prior to such curtailment period will be reduced by the number of kilowatts by which the Purchaser's contract demand for such month was reduced.

(c) If deliveries of interruptible power to the Purchaser during any period are restricted pursuant to section 5 hereof, the provisions relating to "restricted demand" and pro-rating charges contained in sections 2.4 and 15.1(C) of Exhibit B attached hereto, shall apply.

(d) The Purchaser shall pay the Administrator for the electric energy delivered hereunder for use in each potline in the Purchaser's plant, during an initial operating period of three (3) months commencing at the time of initial delivery for such potline, as provided in section 6.1 of Exhibit B attached hereto.

8. *Provisions Relating to Delivery.* Subject to the other provisions of this contract, electric energy shall be made available hereunder in the form of three-phase-current, alternating at a frequency of approximately sixty (60) cycles per second.

Deliveries thereof at the point of delivery shall be made directly over the Government's facilities at the approximate voltage and during

the period specified for such point. The amounts of electric energy and reactive power so delivered at such point during each month, and of the thirty-minute integrated demands for such electric energy, shall be the amounts determined, after making such adjustments for losses as are indicated, by using factors to be agreed upon by representatives designated by the parties hereto, from measurements made by the Government's watt-hour, var-hour, and recording demand meters, respectively, installed or to be installed so as to record the flow of electric energy and reactive power at the place and in the circuits hereinafter specified:

THE BIG EDDY POINT OF DELIVERY:

Location: the point in the Government's Big Eddy switching station where the 115 kv facilities of the Government and the 115 kv facilities to be constructed by the Government in accordance with the terms of said trust agreement (Contract No. 14-03-001-11964), are to be connected;

Voltage: 115 kv;

Period of Service: commencing at the time when the facilities, which are required to enable the Purchaser to take deliveries of electric energy hereunder, are constructed and connected and ready for regular operation, and continuing for the remainder of the term hereof;

Metering: in the Government's The Dalles Aluminum substation, in the 13.8 kv circuits extending from said substation to the Purchaser's plant;

Adjustment: for losses between the point of delivery to the point of metering.

9. *General Provisions.* The General Contract Provisions (GCP Form IND-9), attached hereto as Exhibit C, are hereby made a part of this contract, except that Section 19 thereof, entitled "Balancing Phase Demands", is hereby amended to read as follows:

"The Administrator may, at any time during the term of this contract, require the Purchaser to make such changes of its system as are necessary so that the Purchaser's thirty-minute

integrated demands on one phase of any circuit for any half-hour shall not exceed the integrated demand on any other phase of such circuit for the same half-hour by more than ten percent (10%)."

10. *Uncontrollable Forces.* "Uncontrollable forces" mentioned in section 13.2 of Exhibit B attached hereto shall be deemed to include (in addition to the events mentioned in section 13.1 of said Exhibit B) such of the events hereinafter specified as the Purchaser by the exercise of reasonable diligence and foresight, could not reasonably be expected to avoid:

(a) Orders and temporary or permanent injunctions which prevent operation, in whole or in part, of the Purchaser's plant, and which are issued in bona fide proceeding by:

(1) any duly constituted court of general jurisdiction;

(2) any administrative agency or officer provided by law if (A) the Purchaser has no right to a review of the validity of such order by a court of competent jurisdiction, or (B) such order is operative and effective unless suspended, set aside, or annulled by a court of competent jurisdiction and such court is not authorized or declines to suspend such order, or thereafter to set aside or annul such order in a proceeding prosecuted by the Purchaser in good faith; *provided, however,* that the Purchaser shall not be required to prosecute such a proceeding, in order to have the benefits of this section, if the parties agree that there is no valid basis for contesting the order; and

(b) Floods which limit or prevent the operation of, or which constitute an imminent threat of damage to, the Purchaser's plant.

The word "failure" as used in clause (b) of section 13.1 of Exhibit B attached hereto, as applied to any works, system, or other physical facilities, shall be deemed to include an interruption of or interference with the actual operation thereof.

11. *Assignment.*

(a) The Administrator hereby consents to the assignment of this contract by the Purchaser subject to the following provisions:

(1) no such assignment shall be effective until the Purchaser's plant is constructed and ready for regular operation and has been acquired by said assignee;

(2) no such assignment, other than to a wholly-owned subsidiary of the Purchaser, shall be effective unless it is made pursuant to the terms of a loan agreement under which the Purchaser shall have obtained financing for the construction of the Purchaser's plant, and provided such terms are for the purpose of furnishing security for such financing;

(3) said assignment shall be made by the Purchaser and shall be accepted by said assignee, subject to the express condition that said assignee shall be thereafter bound by the terms of this contract as fully as if the assignee alone had executed this contract in the place of the Purchaser; and

(4) the Purchaser shall at all times remain bound by the terms of this contract as fully as if said assignment had not been made.

(b) The Purchaser will submit to the Administrator a duplicate original of any assignment so made by it, together with a duplicate original of the acceptance thereof by said assignee, showing compliance with the provisions of this section.

IN WITNESS WHEREOF, the parties hereto have executed this contract in several counterparts.

UNITED STATES OF AMERICA
Department of the Interior

(SEAL)

By (signed) WM. A. PEARL
Bonneville Power Administrator

HARVEY MACHINE CO., INC.

(SEAL)

By (signed) LEO M. HARVEY
President

Attest:

(signed) KEITH LINDEN
Ass't Secretary

EXHIBIT A

BONNEVILLE POWER ADMINISTRATION
UNITED STATES DEPARTMENT OF THE INTERIOR
AT-SITE FIRM POWER
WHOLESALE POWER RATE SCHEDULE A-4
(Effective March 1, 1946)
(Amended December 20, 1954)

SECTION 1. *Availability:*

This schedule is available to purchasers of firm power delivered by the Administrator under appropriate contracts at the power plants, or at a point or points adjacent thereto to be designated by the Administrator.

The amount of power sold from any power plant under this rate schedule shall not exceed the at-site firm power determined by the Administrator to be available.

Power sold under this schedule for direct consumption shall be consumed within fifteen miles of the power plant, and power sold under this schedule for resale shall remain available only to a purchaser the principal part of whose load is consumed within fifteen miles of the power plant.

SECTION 2. *Rate:*

Power sold under this schedule shall be at the rate of fourteen and one-half dollars ($14.50) net per year per kilowatt of billing demand, and shall be billed each month at one-twelfth (1/12) of the yearly rate.

SECTION 3. *Minimum Charge:*

The net minimum monthly charge for service under this schedule shall be one-twelfth (1/12) of fourteen and one-half dollars ($14.50) per kilowatt of contract demand.

SECTION 4. *Billing Demand:*

The billing demand shall be the highest of the following demands:

(1) The contract demand,

(2) The measured demand for the month, adjusted for power factor,

(3) The computed demand for the month, if part of the load is supplied from other sources (see Section 2.3 of the General Rate Schedule Provisions),

(4) The highest measured or computed demand during the preceding eleven months, before adjustment for power factor.

SECTION 5. *Power Factor Adjustment:*

The adjustment for power factor specified in Section 4 shall be made by increasing the measured demand for each month by 1% for each 1% or major fraction thereof by which the average power factor at which electric energy is supplied during such month is less than .85 lagging. This adjustment may be waived in whole or in part to the extent that the Administrator determines that a power factor of less than .85 lagging would in any particular case be advantageous to the Government. Unless specifically otherwise agreed, the Administrator shall not be obligated to deliver power to the purchaser at any time at a power factor below .75 lagging.

SECTION 6. *Rate Adjustment:*

This rate schedule shall be subject to such adjustment as the Federal Power Commission may approve upon proposal by the Administrator to become effective on December 20 of the year 1956, or 1957, or 1958, provided that the Administrator shall make timely proposal for the adjustment, if adjustment becomes necessary, in order to bring the rate schedule into conformity with the rate standards of the Bonneville Project Act.

SECTION 7. *General Provisions:*

Sales of power under this schedule shall be subject to the provisions of the Bonneville Project Act and the applicable General Rate Schedule Provisions.

This schedule supersedes Wholesale Power Rate Schedule A-4 effective March 1, 1946.

WM. A. PEARL
Bonneville Power Administrator

EXHIBIT B

BONNEVILLE POWER ADMINISTRATION
UNITED STATES DEPARTMENT OF THE INTERIOR
GENERAL RATE SCHEDULE PROVISIONS
(Effective December 20, 1954)

1.1 *Firm Power:* Firm power is power which the Administrator assures as being continuously available to a customer to meet his load requirements except when operation of the facilities used by the Government to serve the purchaser is suspended, interrupted, interfered with, or curtailed due to uncontrollable forces as defined herein, or because of necessary maintenance.

2.1 *Contract Demand:* The contract demand shall be the number of kilowatts that the Administrator agrees to have available for delivery to the purchaser under the conditions stated in the rate schedule. Any delivery of power in excess of contract demand shall in no event obligate the Administrator to continue to deliver power in excess of the contract demand.

2.2 *Measured Demand:* Except where deliveries are scheduled as hereinafter provided, the measured demand for any class of power, for any point of delivery, and for any period, shall be the largest of the 30-minute integrated demands at which such class of power is delivered to the purchaser at such point during such period. The Administrator, in determining the measured demand, will exclude any abnormal 30-minute integrated demands due to or resulting from emergencies, breakdowns, or maintenance of the Government's facilities. The class of power referred to above may include but is not restricted to firm, dump, experimental, testing, emergency, breakdown, and interruptible power.

If the contractual arrangements provide for the delivery of more than one class of power to the purchaser at any point of delivery, the total 30-minute integrated demands at such point will be determined from measurements as specified in the contract, or estimated where metering or other data are not available for such determination. The

portion of each of such demands assignable to each class of power will be determined according to the terms of the contract.

If the flow of electric energy to the purchaser at any point or points of delivery cannot be adequately controlled because the purchaser's system is interconnected with one or more systems which are also interconnected directly or indirectly with the Government's system, the purchaser's measured demand for each class of power, for such point or points, and for any period, shall be the largest of the hourly amounts of such class of power which are scheduled for delivery to the purchaser at such point or points during such period.

2.3 *Computed Demand:*

A. The determination of computed demand for purchasers whose hydro generating facilities depend essentially upon daily usable streamflow, or for purchasers having only fuel-burning generating facilities, is made as follows:

(1) Determine for the billing month the capability of the purchaser's hydro generating facilities, both in terms of 30-minute peaking and of energy, under the water conditions which would have occurred during the same month in the critical year of record including modifications due to upstream storage operations. The determination will be made on the basis of the average daily usable streamflow in the critical year calculated separately for the first ten days, the second ten days, and the remainder of the month, respectively.

(2) Determine the capability, both in terms of 30-minute peaking and of energy, of the purchaser's fuel-burning generating facilities based on the most adverse fuel conditions reasonably to be anticipated and for which prudent operation would require provision to be made.

Limitation of fuel supply due to war or other extraordinary emergency will receive special treatment as required to conform to the basic purposes of the computed demand as stated above.

(3) Determine the firm peaking and energy capability available to the purchaser from other sources through purchase, lease, and exchange agreements.

(4) Determine the purchaser's assured capability for either peaking or energy by adding the capabilities determined in A(1), (2), and (3) above and deducting appropriate reserves.

(5) The computed demand for the month will be the greater of:

(a) The largest amount for any half hour by which the purchaser's actual system demand exceeds the purchaser's assured capability, or

(b) The largest amount during the month by which the purchaser's actual system average energy load for each ten-day period exceeds the purchaser's assured average energy capability for the corresponding ten-day period.

B. The determination of computed demand for purchasers having seasonal storage facilities (subsequently defined) is made as follows:

(1) Determine the 30-minute peaking and monthly energy capabilities of all nonstorage resources described in A(1), (2), and (3) above.

(2) Determine the monthly capabilities, both in terms of 30-minute peaking and of energy, of hydro generation facilities having seasonal storage, by relating total system resources to estimated monthly loads for the current operating year with storage utilized to provide the minimum peaking or energy requirement after deduction of adequate reserve generating capacity.

This determination will be made prior to the beginning of each operating year.

(3) The purchaser's assured monthly capability for either peaking or energy will be the total system resources less reserves, as determined in B(1) and (2) above.

(4) The computed demand for the month will be the greater of:

(a) The largest amount for any half hour by which the purchaser's actual system demand exceeds the purchaser's assured capability, or

(b) The purchaser's actual system average energy load for the month less the purchaser's assured average energy capability for the corresponding month.

Seasonal Storage shall mean storage held over from the annual high-water season to the following low-water season in an amount sufficient to regulate the hydro energy resources of the system to the system loan requirements in a manner which would result in a uniform computed energy demand for a period of one month or more.

The use of computed demand as one of the alternatives in determining billing demand is intended to assure that each purchaser who purchases power from the Administrator to supplement his own facilities or other firm-power purchases will take a block of power substantially equivalent to the additional capacity which the purchaser would otherwise have to provide on the basis of normal and prudent operation, viz. sufficient capacity to carry the load through the most critical water or other conditions reasonably to be anticipated, with an adequate operating reserve.

Since the computed demand depends on the relationship of capability of resources to system requirements, the computed demand for any month cannot be determined until after the end of the month. As each purchaser must estimate his own load, and is in the best position to follow its development from day to day, it will be his responsibility to request scheduling of firm power, including any increase over previously established demands, on the basis estimated by him to result in the most advantageous purchase of the power to be billed at the end of the month.

Each contract in which computed demand may be a factor in determining the billing demand shall have attached to it as an exhibit a calculation of the computed demand of the purchaser for the period having the highest computed demand during the twelve months immediately preceding the effective date of the contract.

2.4 *Restricted Demand:* If at any time the Administrator notifies the purchaser that future delivery of power will be restricted, or restricts power delivery to a specific amount which he determines can be made available (not including temporary restrictions made neces-

sary by emergency conditions) then, in determining subsequent bills such restricted demand shall be substituted for any higher ratcheted demand or current computed demand which would otherwise be applicable. This provision shall not be deemed to give the Administrator the right to restrict deliveries below contract demand.

3.1 *Administrator:* The term Administrator means the Bonneville Power Administrator or such other department, agency, or official authorized by law to perform functions now performed by the Administrator, or any of their authorized agents.

4.1 *Character of Service:* Power and energy supplied hereunder shall be 3-phase alternating current at approximately 60 cycles per second, or such other type of service as may be available.

5.1 *Point of Delivery and Delivery Voltage:* Power and energy shall be delivered to each purchaser at such point or points and such voltage or voltages as are agreed upon by the Administrator and the purchaser. Delivery at more than one voltage shall constitute delivery at more than one point.

Unless otherwise specifically provided in the rate schedule, where service is rendered to a purchaser at more than one point of delivery, the service at each point of delivery shall be billed separately under the applicable rate schedule. Provision for combined billing may be made in other cases, under conditions and terms specifically provided in the power sales contract, when: (a) delivery at more than one point is advantageous to the Government, or (b) the flow of power at the several points of delivery is reasonably beyond the control of the purchaser.

6.1 *Application of Rates During Initial Operating Period.* In order to promote the development of new industries, the Administrator, for an initial operating period beginning with the commencement of operation of a new plant or major addition to an existing plant, and extending for such period as may be reasonably required by the character of the operation but not to exceed three months, may agree (a) to bill for service to such new plant or major addition on the basis of the maximum demand for each day, or (b) if such new plant or major addition is served by a distributor purchasing power therefor from the

Administrator, to bill for that portion of such distributor's load which results from service to such new plant or major addition on the basis of the maximum demand for each day. The initial operating period may, with approval of the Federal Power Commission, be extended beyond the initial three months' period for such additional time as the character of operations may reasonably require. During such initial operating period such rate schedule provisions regarding contract demand, billing demand, and minimum monthly charge as are inconsistent with this section will be inoperative.

7.1 *Energy Used for Experimental and Testing Purposes:* In order to promote experimentation in new processing methods and in development of new types of load within the market area, the Administrator, for such time as may be reasonably required by the character of the experimentation, but not to exceed six months from the date of initial service unless approval of the Federal Power Commission is first obtained, may sell the energy used solely for such experimentation in accordance with Wholesale Energy Rate Schedule H-3. Energy used solely for testing of new equipment or processes also may be sold by the Administrator under the same conditions as apply to experimental energy.

8.1 *Energy Supplied for Emergency and Breakdown Use:* A purchaser taking firm power shall pay in accordance with Wholesale Energy Rate Schedule H-3 for any energy which has been supplied (a) for an emergency or breakdown use on the purchaser's system, or (b) following such emergency or breakdown to replace energy secured from sources other than the Government during such emergency or breakdown.

9.1 *Billing Month:* Meters will normally be read and bills computed at intervals of one month. A month is defined as an interval of approximately 30 days between normal meter-reading dates. If service is for less or more than the normal billing month, the monthly charges stated in the applicable rate schedule will be appropriately adjusted.

9.2 *Payment of Bills:* Bills for power shall be rendered monthly and shall be payable at the office of the Administrator. Failure to receive a bill shall not release the purchaser from liability for payment.

If payment in full is not made on or before the close of business of the thirtieth day after the date of the bill, a delayed payment charge of two percent (2%) of the unpaid amount of the bill will be made except in the case of bills rendered under contracts with other agencies of the United States.

The Administrator may, whenever a power bill or a portion thereof remains unpaid subsequent to the thirtieth day after the date of the bill, and after giving thirty days' advance notice in writing, cancel the contract for service to the purchaser, but such cancellation shall not affect the purchaser's liability for any charges accrued prior thereto.

Remittances received by mail will be accepted without assessment of the two percent (2%) delayed payment charge provided the postmark indicates the payment was mailed on or before the thirtieth day after the date of the bill. If the thirtieth day after the date of the bill is a Sunday or a holiday, the next following business day shall be the last day on which payment may be made without the addition of the delayed payment charge.

10.1 *Change From One Rate Schedule to Another:* Upon written request to the Administrator, any purchaser who has contracted for service under any rate schedule may change, at his option, to any other applicable rate schedule under an appropriate amendment to the contract, effective during the remainder of the original contract term. Only one such change will be permitted during the term of the original contract, other than changes resulting from the purchaser's option to substitute any applicable new rate schedule which may be filed by the Administrator. The change in rate will be made effective at the beginning of the first billing period following receipt of such request or at such later date as the request may stipulate. The billing factors established under the superseded rate schedule shall be applied if applicable, in computing bills under the newly elected rate schedule in the same manner as if they had been established under the newly elected rate schedule.

11.1 *Approval of Rates:* Schedules of rates and charges for electric energy sold to purchasers by the Administrator shall become effective only after confirmation and approval by the Federal Power

Commission. Such rate schedules may be modified from time to time by the Administrator subject to confirmation and approval by the Federal Power Commission.

12.1 *Average Power Factor:* The formula for determining average power factor is as follows:

$$\text{Average Power Factor} = \frac{\text{Kilowatt-hours}}{\sqrt{(\text{Kilowatt-hours})^2 + (\text{Reactive Kilovolt-ampere-hours})^2}}$$

In applying the above formula, the meter for measurement of reactive kilovolt-ampere-hours will be ratcheted to prevent reverse registration.

When deliveries to a purchaser at any point of delivery include more than one class of power and it is impracticable to separately meter the kilowatt-hours and reactive kilovolt-ampere-hours for each class, the average power factor of the total deliveries for the month will be used, where applicable, as to power factor for each of the separate classes.

13.1 *Uncontrollable Forces:* The term Uncontrollable Forces means (a) strikes affecting the operation of the purchaser's works or system or other physical facilities upon which such operation is completely dependent, or of physical facilities used by the Government to serve the purchaser, or (b) events, reasonably beyond the control of the party having jurisdiction thereof, causing failure, damage, or destruction of such works, system, or facilities which by the exercise of reasonable diligence such party could not reasonably have been expected to avoid. Each party shall notify the other immediately of any defect, trouble, or accident which may in any way affect the delivery of power by the Government to the purchaser. In the event the operations of either party are suspended, interrupted, interfered with, or curtailed due to uncontrollable forces, such party shall exercise due diligence to reinstate such operations with all reasonable dispatch.

13.2 *Reduction in Charges on Account of Interruptions:* If operation of the customer's works or system or other physical facilities upon which such operation is completely dependent, or if operation of

physical facilities used by the Government to serve the purchaser is suspended, interrupted, interfered with, or curtailed due to uncontrollable forces, as defined herein, or because of necessary maintenance on the Government's system, the charges for power shall be appropriately reduced. No interruption of less than five (5) minutes duration will be considered for computation of such reduction in charges.

14.1 *Determination of Estimated Billing Data:* In cases where amounts of power and energy purchased by a distributor must be estimated from information on use of power by ultimate consumers of that distributor, the Administrator shall review the data on consumer use of power submitted by the purchaser, and if any changes are deemed necessary, will advise the purchaser of the changes proposed. In the event that agreement cannot be reached as to the estimate, a binding determination shall be made by a committee composed of one member appointed by the Administrator, one member appointed by the purchaser, and if necessary one member who shall have no direct interest to be selected by the two members so appointed.

15.1 *Sale of Interruptible Power:* Interruptible power is power which the Administrator agrees to deliver except when curtailed by him upon reasonable notice. The wholesale power rate schedules applicable to the sales of firm power by the Administrator shall also apply to sales of interruptible power, subject to the following provisions:

A. The billing demand shall be the measured demand for the month, adjusted for power factor.

B. The minimum monthly charge for firm power included in such schedules shall not apply.

C. If the Administrator curtails or agrees at the request of the purchaser to curtail deliveries of interruptible power during any month:

(1) The rates per kilowatt and the energy blocks, if any, stated in the schedules shall be prorated according to the ratio of the time in each portion of the month during which the same

restrictions were continuously in effect to the total time in the month, and

(2) The billing demand for interruptible power for such portion of the month shall be the measured demand during such portion of the month adjusted, pursuant to the applicable rate schedule, for the average power factor for the entire month.

D. Any contract which provides that the purchaser shall purchase a specified amount of interruptible power until firm power is substituted therefor when it becomes available for that purpose as provided in such contract, shall include a minimum billing demand for such interruptible power which shall apply except when deliveries thereof are curtailed by the Administrator below the specified amount to be purchased.

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EXHIBIT C

GCP Form IND-9 (Draft 7-1-53)
(7-3-53)

GENERAL CONTRACT PROVISIONS

RELATING TO MEANING

1. *Interpretation.*

(a) The provisions in the document to which these General Contract Provisions are attached as an exhibit shall be deemed to be a part of this exhibit for the purpose of determining the meaning of any provision contained in this exhibit. If a provision in such document is in conflict with a provision contained in this exhibit, the former shall prevail.

(b) Nothing contained in this contract shall, in any manner, be construed to abridge, limit, or deprive any party thereto of any means of enforcing any remedy, either at law or in equity, for the breach of any of the provisions thereof which it would otherwise have.

2. *Definitions.* As used in this contract:

(a) the words "month" and "billing month" shall mean the period commencing at the time when the meters mentioned in this contract are read by the Administrator and ending approximately thirty (30) days thereafter when a subsequent reading of such meters is made by the Administrator;

(b) the words "thirty-minute integrated demand" shall mean the number of kilowatts which is equal to the product obtained by multiplying by two the number of kilowatt-hours delivered at any point during any clock half-hour.

(c) the word "transferor" shall mean a person who makes electric energy available to (1) the Purchaser, or to another person for transmission to the Purchaser, for the account of the Government, or (2) to the Government for transmission to the Purchaser.

(d) the Government's "system" or "facilities" shall include facilities owned by the Government and those which the Government may use under lease, easement, or license.

RELATING TO COMPUTATION OF CHARGES

3. *Commencement of Payments.* The obligation of the Purchaser to make the payments provided for in the applicable rate schedule with respect to each point of delivery under this contract shall commence at the time of initial delivery at such point stated in this contract.

4. *Prior Demands.* If the Government has delivered, by transfer or otherwise, electric energy to the Purchaser, at any point of delivery specified in this contract prior to the time this contract takes effect, the Purchaser's measured demands, and computed demands, if any, at such point, prior to such time shall be considered for the purpose of determining the amount due from the Purchaser for the electric energy delivered under this contract, during any month in the term thereof, in the same manner as if this contract had been in effect.

5. *Reports.* The Purchaser will furnish the Government such information as is necessary for making any computation required for purposes of this contract, and the parties will cooperate in exchanging such additional information as may be reasonably useful for their respective operations.

6. *Measurements.* Except as it is otherwise provided in section 7 of this exhibit, each measurement of each meter mentioned in this contract shall be the measurement automatically recorded in writing by such meter, but if none, shall be the measurement of such meter as reported by the Administrator.

7. *Adjustment for Inaccurate Metering.* If any meter mentioned in this contract fails to register, or if the measurement made by such meter during a test made as provided in this exhibit varies by more than two per cent (2%) from the measurement made by the standard meter used in such test, adjustment shall be made correcting all measurements made by such inaccurate meter for (1) the actual period during which such inaccurate measurements were made if such period can be determined, or (2) if not, the period immediately preceding the test of such meter which is equal to one-half the time from the

date of the last preceding test of such meter; *provided, however,* that the period during which such correction is to be made shall not exceed six (6) months. Such corrected measurements shall be used to recompute the amounts due from the Purchaser for the electric energy made available under this contract during such period. If the total amount due from the Purchaser for such period as recomputed varies from the total amount due as theretofore computed, the amount of the variance shall be paid to the party entitled thereto within thirty (30) days after the recomputation is made.

8. *Effect of Reduction of Contract Demand.* If the Purchaser's contract demand is specified in this contract in kilowatts and is reduced after this contract is executed, the prior measured or computed demands, if any, of the Purchaser shall, for the purpose of computing charges for electric energy delivered thereafter, be reduced by the amount of such reduction.

9. *Reducing Charges for Interruptions.* If delivery of electric energy under this contract is interrupted or reduced at any point of delivery pursuant to section 14 of this exhibit, the amount, which would otherwise be due from the Purchaser for the electric energy made available at such point during the month in which such interruption or reduction occurs, shall be appropriately reduced.

10. *Adjustment for Unbalanced Phase Demands.* If the Purchaser fails to make promptly the changes mentioned in section 19 of this exhibit, the Government may determine the registered demand of the Purchaser, at the point of delivery in question during each month thereafter until such changes are made, to be equal to the product obtained by multiplying by three (3) the largest of the thirty-minute integrated demands of the Purchaser on any phase at such point during such month. This section shall not apply with respect to any point of delivery where the current required to be supplied at such point is other than three-phase current.

11. *Assignment of Total Integrated Demand to Classes of Power.* If this contract provides for supplying dump or emergency energy to the Purchaser, the integrated demand for dump and emergency energy

for any thirty-minute period during which deliveries of electric energy by the Government to the Purchaser are not limited by the Administrator to a smaller amount, shall be the number of kilowatts, if any, by which the integrated demand for the half-hour exceeds the largest of such of the following as are billing demand factors under the firm power rate schedule specified in this contract: (a) the contract demand for the month; (b) the computed demand for the month; (c) the highest measured or computed demand during the preceding eleven months. The remainder of such total integrated demand shall be the integrated demand for firm power and interruptible power, if any, for such half-hour.

RELATING TO RATES

12. *New Rates.* If the Administrator at any time during the term of this contract files with the Federal Power Commission a new rate schedule which by its terms is available for the class and quality of service covered by this contract, he will, within thirty (30) days after confirmation and approval of such rate schedule by the Federal Power Commission, give written notice thereof to the Purchaser together with a copy of such rate schedule. At any time after such filing the Purchaser may, in writing, request the Administrator to substitute such rate schedule for the rate schedule in effect under this contract. Such substitution shall be effective at the beginning of the first billing month following such approval, if such request is received prior to such approval, but if not, such substitution shall be effective at the beginning of the first billing month following that in which such request is received.

13. *Equitable Adjustment of Rates.*

(a) As used in this section, the words "rate adjustment date" shall mean each of the following dates: December 20, 1954, and each and every quinquennial anniversary thereof.

(b) Except as it is otherwise provided in section 12 of this exhibit the Purchaser shall pay the Administrator for the electric energy made available under this contract during the five-year period commencing on each rate adjustment date in the term hereof, at the rate specified

in any rate schedule available at the beginning of such period under new contracts for service of the class, quality, and type provided for in this contract, and in accordance with the terms thereof and the General Rate Schedule Provisions incorporated or referred to in such rate schedule, subject to the following provisions:

(1) if more than one rate schedule for such service is available at the beginning of such period, the Purchaser shall determine which of the several rate schedules shall apply under this contract during such period, and

(2) if a rate in excess of the rate in effect at the time this contract is executed becomes effective under this contract, the Purchaser may, by giving written notice to the Administrator at any time within sixty (60) days from the time such increased rate becomes effective, terminate this contract at such time after said notice is given as is specified in such notice.

RELATING TO DELIVERY OF POWER

14. *Continuity of Service.* The Government may temporarily interrupt or reduce deliveries of electric energy to the Purchaser if the Administrator determines that such interruption or reduction is necessary or desirable in case of system emergencies, or in order to install equipment in, make repairs, replacements, investigations, and inspections of, or perform other maintenance work on, the Government's electric system. Except in case of emergency, and in order that the Purchaser's operations will not be unreasonably interfered with, the Administrator will give the Purchaser notice of any such interruption or reduction, the reason therefor, and the probable duration thereof.

15. *Conservation of Natural Resources.* The Government will not be obligated to deliver power pursuant to this contract whenever, in the judgment of the Administrator, the Purchaser's plants or operations would harm or detract from the scenic beauties of the Columbia River Gorge, or the waste products from such plants or operations would harm or destroy the fish or other aquatic life or otherwise pollute the waters of drainage basins of the Pacific Northwest.

16. *Delivery by Transfer.* If it is provided in this contract that delivery to the Purchaser at any point of delivery will be made by transfer over the facilities of a transferor or transferors, the Government shall be obligated to make available to the Purchaser at such point only such amounts of electric energy as are made available to the Purchaser by such transferor or transferors at such point, and the obligation of the Government to make electric energy available to the Purchaser at such point shall be in all respects subject to all provisions contained in the agreement or agreements executed, or to be executed, if not already in effect, by the Administrator and such transferor or transferors requiring such transfer.

RELATING TO USE OF POWER

17. *Changes in Demands or Characteristics.* The Purchaser will, whenever possible, give reasonable notice to the Administrator of any unusual increase or decrease of its demands for electric energy on the Government's system, or of any unusual change in the load factor or power factor at which the Purchaser will take delivery of electric energy under this contract. The Purchaser shall be liable for any damage to the Government's system which results from any such increase, decrease, or change made without the Administrator's consent.

18. *Electric Disturbances.* The Purchaser will not use the energy delivered under this contract in such manner as to cause electric disturbances which may be reasonably expected to (a) cause damage to the Government's system or to systems connected with the Government's system, or (b) prevent the Administrator from serving other purchasers satisfactorily.

19. *Balancing Phase Demands.* The Administrator may, at any time during the term of this contract, require the Purchaser to make such changes of its system as are necessary so that the Purchaser's thirty-minute integrated demands on one phase at any point of delivery for any half-hour shall not exceed the integrated demand on any other phase at such point for the same half-hour by more than ten per cent

(10%). This section shall not apply with respect to any point of delivery where the current required to be supplied at such point is other than three-phase current.

20. *Use and Resale of Power.* All electric energy delivered under this contract will be used by the Purchaser in its own operations at or in the immediate vicinity of the point of delivery, and the Purchaser will not resell such electric energy, or any part thereof, to any private utility or agency engaged in the sale of electric energy to the general public. If the Purchaser resells such electric energy, or any part thereof, to any such private utility or agency, the Administrator may and will immediately cancel this contract.

RELATING TO FACILITIES

21. *Installation of and Measurements by Government's Meters.* The Administrator may at any time install a meter or metering equipment of the Government to make the measurements required for any computation or determination mentioned in this contract, and if so installed such measurements shall be used thereafter in such computation or determination.

22. *Tests of Metering Equipment.* Each party to this contract will, at its expense, test its metering equipment mentioned in this contract at least once every two years, and, if requested to do so by the other party, will make additional tests or inspections of such metering equipment, the expense of which will be paid by such other party unless such additional tests or inspections show such metering equipment to be inaccurate as specified in section 7 of this exhibit. Each party will give reasonable notice of the time when any such test or inspection is to be made to the other party who may have representatives present at such test or inspection.

23. *Permits.*

(a) If any equipment or facilities of a party to this contract is, or is to be by the terms of this contract, located on the property of the other, a permit to install, test, maintain, inspect, replace, and repair

during the term of this contract, and to remove at the expiration of said term, such equipment and facilities, together with the right of ingress to and egress from the location thereof at all reasonable times in such term is hereby granted by the other party.

(b) Each party shall have the right to read, at all reasonable times, any and all meters mentioned in this contract which are installed on the property of the other.

24. *Ownership of Facilities.*

(a) Ownership of any and all equipment, and of all salvageable facilities, installed by a party to this contract on the property of the other, shall be and remain in such party.

(b) Each party shall identify all movable equipment and, to the extent agreed upon by the operators of the parties, all other salvageable facilities which are installed by such party on the property of the other, by permanently affixing thereto suitable tags, stencils, stamps, or other markers plainly stating the name of the owner of property so identified.

25. *Purchaser's Facilities.* The Purchaser will, at its expense, install such equipment as is necessary to limit the electric disturbances described in section 18 of this exhibit. All electric facilities installed by the Purchaser and connected with the Government's system shall conform to accepted modern practice and applicable state regulations, or, in the absence of applicable state regulations, to the specifications, rules, and regulations contained in the latest editions of, and supplements to, the National Electric Safety Code of the United States Bureau of Standards.

26. *Inspection of Purchaser's Facilities.* The Government may, but shall not be obligated to, inspect the Purchaser's electric installation at any time, but such inspection, or failure to inspect, shall not render the Government, its officers, agents, or employees, liable or responsible for any injury, loss, damage, or accident resulting from defects in such electric installation, or for violation of this contract.

27. *Facilities for Maintenance of Voltage.* The Government will design and construct its facilities to maintain under normal conditions and in accordance with generally accepted operating practices, the voltage at each point of delivery from the Government's system within a range of five per cent (5%) above or below the operating voltage agreed upon by the operators of the parties to this contract consistent with the provisions of this contract; *provided, however,* that this section shall not apply where such electric energy is required to be delivered at a voltage in excess of 15 kv.

REQUIRED BY STATUTE IN CONTRACTS FOR CONSTRUCTION

28. *Eight-Hour Law and Overtime Compensation.*

(a) If it is provided herein that the Purchaser will construct or install any facilities, no laborer or mechanic doing any part of the work contemplated by this contract in the employ of the Purchaser or any subcontractor contracting for any part of said work contemplated, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this section.

(b) The wages of every such laborer and mechanic so employed by the Purchaser, or any subcontractor engaged in the performance of such work, shall be computed on a basic day rate of eight hours per day and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirement of this section a penalty of five dollars ($5) shall be imposed upon the Purchaser for each laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this section, and all penalties thus imposed shall be paid upon demand to the Government for its use and benefit; *provided, however,* that this stipulation shall be subject in all respects to the exceptions and provisions of U. S. Code, title 40, sections 321,

324, 325, 325a, and 326, relating to hours of labor and compensation for overtime.

29. *Convict Labor.* The Purchaser shall not employ any person undergoing sentence of imprisonment at hard labor.

MISCELLANEOUS PROVISIONS

30. *Arbitration.* If the parties to this contract do not agree on the determination of any question of fact hereinafter stated, a determination thereof will be made by a committee composed of a member appointed by the Administrator and a member appointed by the Purchaser. If such members are unable to agree upon a determination of such question they shall appoint a third member who shall have no direct interest in the controversy. The determination of such question made by the Committee, or a majority of its members, shall be binding on the parties.

The questions of fact to be determined as provided in the preceding paragraph shall be: the correction of the measurements to be made as provided in section 7 of this exhibit; the amount of reduction in charges mentioned in section 9 of this exhibit; whether the changes mentioned in section 10 of this exhibit were made "promptly"; whether an abnormal nonrecurring demand occurred and the amount and time thereof; any fact mentioned in the first sentence of section 17 and in sections 18 and 19 of this exhibit; and whether the arrangements made by the Purchaser comply with section 25 of this exhibit.

31. *Enforcement of Rights for Benefit of Transferors.* If delivery of electric energy under this contract is to be made by transfer over the facilities of any transferor or transferors, the Government may enforce its rights under the power factor clause of the Bonneville Wholesale Power Rate Schedule incorporated in this contract, and under sections 10, 14, 17, 18, 19, 23, 24, 25, and 26 of this exhibit, for the benefit of such transferor or transferors, and all references to the Government's system, property, or facilities in said section shall be deemed to include the facilities of the transferor or transferors being used to deliver electric energy and reactive power to the Purchaser for the account of

the Government, or to the Government for transmission to the Purchaser.

32. *Assignment of Contract.* This contract shall inure to the benefit of, and shall be binding upon the respective successors and assigns of the parties to this contract; *provided, however,* that neither such contract nor any interest therein shall be transferred or assigned by either party to any party other than the United States or an agency thereof without the written consent of the other.

33. *Waiver of Default.* Any waiver at any time by any party to this contract of its rights with respect to any default of any other party thereto, or with respect to any other matter arising in connection with such contract, shall not be considered a waiver with respect to any subsequent default or matter.

34. *Notices and Computation of Time.* Any notice required by this contract to be given to any party shall be effective when it is received by such party, and in computing any period of time from such notice, such period shall commence at 12 p. m. on the date of receipt of such notice.

35. *Interest of Member of Congress.* No Member of, or Delegate to Congress, or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom. Nothing, however, herein contained shall be construed to extend to such contract if made with a corporation for its general benefit.

EXHIBIT D

INDUSTRIAL REQUIREMENTS SCHEDULE

Industrial Customer	Date of Expiration of Contract	Contract Demand in Kilowatts
Aluminum Company of America (Vancouver)	10-30-71	136,000
Aluminum Company of America (Wenatchee)	5-22-71	120,000
Anaconda Aluminum Company	2-21-75	111,000
Carborundum Company, The	1-15-74	18,720
Chromium Mining & Smelting Corporation	11-15-58	13,000
Crown Zellerbach Corporation	12-18-67	6,200
Electro-Metallurgical Co. (Union Carbide & Carbon Corp.)	5-29-61	7,500
Hanna Nickel Smelting Company	6-30-73	65,000
Harvey Machine Company of California—The Dalles		40,000
Kaiser Aluminum & Chemical Corp. (Spokane Red.)	9-30-73	189,000
Kaiser Aluminum & Chemical Corp. (Spokane Fab.)	9-30-73	35,000
Kaiser Aluminum & Chemical Corp. (Tacoma Red.)	9-30-73	50,000
Keokuk Electro-Metals Company	7-26-73	7,300
Pacific Carbide & Alloys Company	6-30-73	3,250
Pennsylvania Salt Mfg. Co. of Washington	2- 3-69	13,600
Rayonier, Inc.	10-14-68	2,300
Reynolds Metals Company (Longview)	10- 2-70	60,000
Reynolds Metals Company (Troutdale)	10- 2-70	142,100
Victor Chemical Company	8-31-73	31,200

ALUMINUM INDUSTRY

Section VIII. Minutes of various committees of the aluminum industry, advisory to the National Production Authority and the Business and Defense Services Administration, Department of Commerce

NATIONAL PRODUCTION AUTHORITY

WASHINGTON, D. C.

MINUTES OF MEETING OF PRIME ALUMINUM PRODUCTS INDUSTRY ADVISORY COMMITTEE, APRIL 30, 1953

T. A. Lynch, Aluminum and Magnesium Division, NPA, Government Presiding Officer

Committee members:

*D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
*W. E. Sprackling, Anaconda Wire & Cable Co., New York, N. Y.
Terry W. Kuhn, Bohn Aluminum & Brass Corp., Detroit, Mich.
*A. P. Cochran, Cochran Foil Co., Louisville, Ky.
*Lawrence M. Brile, Fairmont Aluminum Co., Fairmont, W. Va.
*Leo M. Harvey, Harvey Machine Co., Torrance, Calif.
*S. S. Inch, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
*Leonard Starr, Michael Flynn Manufacturing Co., Philadelphia, Pa.
*Frank R. Nichols, Nichols Wire & Aluminum Co., Davenport, Iowa
*John W. Douglas, Republic Foil & Metal Mills, Inc., Danbury, Conn.
*Harold C. Wilson, Revere Copper & Brass Inc., New York, N. Y.
David P. Reynolds, Reynolds Metals Co., Louisville, Ky.
*Robert P. Stranahan, Stranahan Foil Co., South Hackensack, N. J.
George A. Ginsburg, United Smelting & Aluminum Co., New Haven, Conn.
*Arthur Lowery, Wyman-Gordon Co., Worcester, Mass.
*Lewis M. Burt, Youngstown Manufacturing, Inc., Youngstown, Ohio

Industry advisory committees are representative groups formed for the purpose of furnishing advice and information to the National Production Authority on matters furthering the defense effort. No actions are taken or decisions made in these meetings since they are solely for advisory purposes. Suggested subjects for consideration at future meetings may be sent to the Government presiding officer.

Other industry representatives:

H. L. Smith, Jr., Aluminum Company of America, Pittsburgh, Pa.
Kenneth Crawford, Bohn Aluminum & Brass Corp., Detroit, Mich.
Jack Watson, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Maxwell Caskie, Reynolds Metals Co., Louisville, Ky.
J. M. Stuart, Reynolds Metals Co., Louisville, Ky.

GOVERNMENT ATTENDANCE

National Production Authority:
Aluminum and Magnesium Division:
S. M. Blumenreich
W. Van R. Gilbert
J. H. Woodend
G. F. Mahoney, Jr.
Arthur A. Snow, Sr.
A. A. Throckmorton
D. D. Sgritta

*Present at meeting.

Connor B. Batman, Office of Industry Advisory Committees.
E. M. Synan, Office of Industry Advisory Committees.
R. Blaisdell, Office of Public Information.
Gerald E. Stephenson, Office of General Counsel.
I. E. Peterson, Office of Small Business.
John Priest, Office of Small Business.
Ann Lesher, minutes writer.

Other agencies:
Dr. R. L. Sebastian, Office of Defense Mobilization.
Edwin A. Harris, Office of Defense Mobilization.
J. L. Farrell, Office of Defense Mobilization.
A. W. Lewis, Munitions Board.
Timothy May, Munitions Board.
A. S. Wyner, Mutual Security Agency.
Clement A. Ducy, Small Defense Plants Administration.

PURPOSE OF THE MEETING

The Prime Aluminum Products Industry Advisory Committee met on April 30, 1953, to discuss: (1) Actions taken since the last meeting; (2) the current and future supply-demand situation; (3) NPA Order M–5A; and (4) the continuation of industry representation in Government after the expiration of the Defense Production Act, June 30, 1953.

Mr. T. A. Lynch (Director, Aluminum and Magnesium Division, NPA) was the Government presiding officer.

OPENING REMARKS

Mr. E. M. Synan (Office of Industry Advisory Committees, NPA) noted changes which had been made in the membership of the committee. He also explained that three technicians from the industry were present to participate in discussions on current supply-demand problems.

Copies of the Rules Applicable to Meetings with Groups of Industry Representatives, as revised effective January 2, 1952, were distributed to the new committee members.

ACTIONS TAKEN SINCE THE LAST MEETING

Mr. Lynch reviewed recommendations made at the last meeting of the committee and noted action which had been taken on each. Recommendations Nos. 1, 2, and 4 (all dealing with controls after June 30, 1953) are all taken care of under the new defense materials system, he said. Recommendation No. 3 was found to be impractical, and therefore no action was taken; recommendations Nos. 5, 6, 7, and 8 are subjects for detailed discussion at this meeting, he said.

CURRENT AND FUTURE SUPPLY-DEMAND SITUATION

Statistics on the estimated aluminum supply for the years 1950 through 1955—by quarters for 1952 and 1953, and by years for the other periods—together with statistics showing the estimated backlog for the second quarter of 1953, were distributed to the committee. Copies of these statistics are appended to these minutes as attachment 1. Figures on the metal supply as indicated for the third and fourth quarters of 1953 are not necessarily final, Mr. Lynch explained, since stockpile deliveries, as presently programed, have been deducted. It is very possible that these stockpiling figures may have to be adjusted as several independent and prime producers have recommended that stockpiling of aluminum be either minimized or eliminated entirely for the balance of 1953, Mr. Lynch said.

Discussion on stockpiling.—In view of the amount of aluminum being set aside for military and Atomic Energy Commission production, industry representatives did not believe that the civilian economy could stand further deductions for stockpiling purposes at this time. While the industry recognized the necessity for maintaining an adequate stockpile of all strategic metals, they believed that, in view of the critical situation in aluminum at the present time, stockpiling of this metal might be postponed until such time as production from the current expansion program is realized. Reference was made to an Office of Defense Mobilization meeting held on April 29 and attended by several high-ranking Government officials, as well as representatives from the aluminum industry—both producers

and fabricators. At that meeting, it was strongly recommended that stockpiling of aluminum be deferred at least until 1954, industry representatives said.

In reply to questions from fabricators, aluminum producers said that their supply of aluminum available to fabricators in the third quarter would probably be reduced by 25 percent unless stockpiling is deferred until a later date. It was the consensus of the committee members that stockpiling of aluminum be deferred until civilians, who have long been denied necessary aluminum products, are able to obtain items which they need to carry them through until increased production is realized.

The committee recommended, unanimously:

> That, because of the extremely tight supply situation and heavy civilian demands for aluminum, deliveries to the national stockpile during the third quarter of 1953 be deferred , and that future stockpiling decisions be made on a quarter-by-quarter basis.

Industry representatives asked what efforts are being made to increase purchases of foreign aluminum. Even at the existing premium prices, it would appear feasible to increase these purchases because such action would tend to serve the dual purpose of (1) aiding the foreign economy and (2) increasing our stockpile. Mr. Edwin A. Harris (Office of Aluminum, ODM) assured the committee members that steps have already been taken to increase imports. Inquiry has been made of the British Government and the Aluminum Import Co. as to the possibility of continuing the diversion of aluminum under the United Kingdom-Alcan contract to this country in the third quarter 1953 on the same scale as the second quarter 1953 shipments to the United States, he added.

The committee recommended:

> That everything possible be done to increase importations of pig aluminum—even at premium prices—for stockpiling purposes.

Difficulties encountered in placing third-quarter orders.—Committee members representing the independent fabricating segment of the industry reported that, to date, fabricators have received no confirmation on third-quarter orders offered to producers. As a result, fabricators have not been able to firm up civilian orders. This was attributed to the fact that producers—until advised by telegram from NPA within the past several days—were unable to estimate the amount of metal they would be required to set aside for the military. Similarly, stockpiling requirements have not yet been definitely determined. Producers therefore had to inform fabricators that, until set aside and stockpiling requirements were crystallized, they would be unable to confirm orders.

Mr. Lynch apologized for the delay in getting out NPA Order M–5A, noting that everything possible is being done to insure the issuance of this Order the early part of next week. In order to relieve hardships being suffered by manufacturers in not being able to firm up orders, producers were notified by wire several days ago of the amounts and types of aluminum to be set aside for military and AEC orders. Any further hardships resulting from this delay should be brought to the attention of the Division and directive action will be taken where necessary until M–5A is finally issued, Mr. Lynch told the committee.

Committee members further recommended:

> That, because the normal 60-day lead time for the third quarter of 1953 commences on May 1, the decision with respect to stockpiling should be immediately transmitted to each of the primary producers so that they may plan their third-quarter acceptances in sufficient time to avoid delays in shipments to independent fabricators of aluminum.

Mr. Lynch told the committee that these recommendations would be brought to the attention of the proper Government authorities. (A copy of the actions taken subsequent to the meeting is attached as attachment II.) He also added that a change in the lead time from 60 to 45 days has been effected.

Discussion on set-asides.—It is anticipated that set-asides for military and AEC orders will total 260 million pounds (approximately 30 percent of the total aluminum supply) Mr. Lynch told the committee. In addition to satisfying military and AEC orders, this amount is estimated to be adequate for B–5 orders and any necessary adjustments. Determinations have been made as to how much of the total set-aside poundage will be prime, how much secondary, etc., also the quantity to be assigned to each producer and fabricator having a fourth-quarter 1952 military order pattern, Mr. Lynch said.

One industry representative—an independent fabricator—discussed the feasibility of establishing a pool for military set-aside material which would be available for anyone who may happen to receive military orders. He did not believe that an order pattern based on the fourth quarter of 1952 would be feasible.

It is very possible, he contended, that manufacturers who were in business in 1952 may not be in business today. He noted also that new manufacturers who were not in the business in 1952 may be forced to turn down military orders today because they have no fourth-quarter 1952 military order pattern. He made the following recommendations which he requested be incorporated in the minutes:

That set-aside metal be established as a pool of metal from which fabricators draw to the extent of their orders for military requirements and that proper safeguards be set up to insure equitable distribution of metal from the pool; and

That aluminum set aside for military requirements not interfere with, or reduce, or take the place of aluminum to which any nonintegrated fabricator is entitled as the result of a private contract now in effect between it and any domestic or foreign aluminum ingot producers.

Only one other committee member concurred in the above recommendations. The majority of the committee were opposed.

Mr. Lynch explained that action on these recommendations would necessitate the reinstitution of controls. In trying to work out a system which would be free of controls and still insure that military programs be fully carried out, NPA had to have some pattern and the fourth quarter of 1952 appeared to be a workable base. As in the past, disproportionate order placement would lead only to confusion and would require a review of order boards, instructions to producers to cut back and ship to someone else, etc. A pool, without a base pattern, Mr. Lynch continued, could not possibly work without controls. This set aside is, in effect, a pool, except that it is confined to manufacturers having fourth-quarter 1952 patterns. If a manufacturer does not receive military orders to the extent of his set-aside, then his surplus is open after the commencement of lead time; if a manufacturer varies too much from this fourth-quarter 1952 pattern, his set aside for subsequent quarters will have to be adjusted to fit his pattern.

After considerable discussion, it was the consensus of the majority of the committee that the new NPA Order M–5A would accomplish the purpose without undue control.

As to the possibility of a military contract being rejected because a manufacturer had no base period pattern, Mr. S. M. Blumenreich (Aluminum and Magnesium Division, NPA) said that such a manufacturer can always make application for necessary materials to complete such orders. Allowances are made in the set-aside for such emergencies, but these cases would be exceptions rather than the rule, he said, since the services have certain manufacturers who are equipped to produce specific items and they usually place contracts in the hands of these manufacturers.

Asked if it is anticipated that future military demands will equal those of the fourth quarter of 1952, Mr. Lynch replied that, while they will probably be the same, the amount of material set aside must be sufficient to allow some flexibility and to meet emergencies.

Discussion on production facilities.—Questioned whether all pig producing facilities are being utilized to the maximum extent or whether some producers might be holding back because of the cost involved, Mr. Lynch told the committee that a recent canvass of pig producers revealed that all three are operating at peak capacity.

The need for increased production of aluminum is so great that recommendations for further expansion might be in order, one committee member said. Many customers who express preference for aluminum products are reluctant to place orders for them only because aluminum is still considered a strategic metal and they cannot be assured of a continuing supply, he said.

While admitting that the demand for aluminum today is greater than anyone either in industry or in Government had forecast, requirements estimates were based on information from the industry and on the advice of this committee, Mr. Lynch said. The metal supply is running pretty much according to expectations and, in addition, larger amounts are being received from foreign sources than were anticipated, he added.

Several committee members recommended that NPA reanalyze projected future civilian demands and review the present aluminum expansion program in order to determine the feasibility of giving the third round of expansion the same financial treatment as the second round. They further recommended that bans on expansion by existing primary aluminum producers be lifted.

After considerable discussion on this subject, it was the consensus of the majority of the committee that they were not well enough informed to take a position on the foregoing recommendation; two members concurred in the recommendation.

The third round of expansion has been approved, in part, on the basis that it can be obtained primarily from private financing, Mr. Harris told the committee. The specific formula of approval established by ODM is that this third round of expansion proceed according to the ground rules laid down. This is the best step which can be taken at the present time, he said. The third round is believed to be definitely essential, he continued. If it is found that it cannot be achieved under the ground rules as laid down by ODM, further steps will have to be taken to see how it can be accomplished. The only justification for a fourth round of expansion would be sharply accelerated military or civilian requirements—over and above present projections for the next 10 years, Mr. Harris said.

The following recommendation, in which the majority of the committee concurred, was also submitted by a committee member:

> That an office be established in the General Services Administration for the purpose of administering the primary aluminum production the Government has reserved for nonintegrated producers in market guarantee contracts with companies participating in Government-sponsored programs to expand the national aluminum reduction capacity.

Several committee members requested that this recommendation be forwarded to the General Services Administration for presentation to the new Administrator as soon as he is confirmed. Other members pointed out that a unit established to deal with matters pertaining to the aluminum expansion program already exists in GSA, and, therefore, they did not think such action necessary.

NPA ORDER M–5A

Immediately after the issuance of NPA Order M–5A which, it is hoped, will be soon, independent fabricators will be notified of their military set-aside, Mr. Lynch told the committee. Breakdowns as to quantities going into shapes, sheets, wire, etc., were made after consultation with the various fabricators, Mr. Lynch said. Shipment reports were also used as a guide in arriving at these decisions. Should a manufacturer find it impossible to control his acceptance within these breakdowns, adjustments will have to be made, he said.

In connection with shipment reports, one industry representative reported that he is a member of an industry group making a study of a future program for obtaining shipments of aluminum byproducts. The program is planned to start on July 1, he said, and suggested that, if consistent with security regulations, figures gathered by NPA be made available to the industry. The industry's statistical program would then provide continuity of information on shipments already compiled by NPA, he believed. The committee concurred and unanimously recommended that this matter be looked into.

Asked whether or not the Government stands ready to reactivate controls in the event of emergencies arising from shortages of materials, Mr. Lynch replied that pending legislation now before Congress was expected to confine materials controls to taking care of military and AEC demands, with no power to allocate for civilian uses. However, it is not known what powers any agency will have until the law is passed and signed by the President, Mr. Lynch said.

CONTINUATION OF INDUSTRY REPRESENTATION IN GOVERNMENT AFTER EXPIRATION OF THE DEFENSE PRODUCTION ACT, JUNE 30, 1953

Industry representatives strongly urged that there be a continuation of an industry advisory committee for the prime aluminum products industry after the expiration of the Defense Production Act. Mr. Synan told them that consideration is now being given to the continuation of this Government-industry relationship so that the Government might continue to have the benefit of industry's advice and counsel. Some decision will undoubtedly be made before June 30, he said.

It was reported that the steel industry proposes to follow a pattern similar to that established for the Petroleum Administration for Defense and that it had already appointed a task group to work on a proposal for presentation to the Secretary before June 30. Such a setup would, however, necessitate the industry's supplying 1 or 2 full time w. o. c. (without compensation) employees for supervisory purposes. The bulk of the work would be handled by Government-paid employees.

It was the consensus of the committee members that, while such a setup would require some sacrifice on the part of industry representatives, there was much to be gained by the aluminum industry having individual representation in Govern-

ment to handle its future problems, rather than lose its identity in a Miscellaneous Metals and Minerals Division. It was, therefore, recommended that a task group be appointed by Mr. Lynch, consisting of about five industry representatives, to study the advisability of establishing a permanent aluminum unit in the Department of Commerce, separate from any other unit, and that this task group report directly to NPA if its findings are unanimous—otherwise, back to this committee.

The committee authorized Mr. Lynch to appoint two other task groups—comprised of technical personnel from the industry—one task group to study and make recommendations on post-attack planning; the other to work on mobilization base studies.

Committee members gave a rising vote of thanks to Dr. R. L. Sebastian (Aluminum Division, ODM) who has rendered invaluable service to this industry, they said. Dr. Sebastian is retiring from Government service in the near future.

COMMITTEE RECOMMENDATIONS

The committee recommended, unanimously, that because of the extremely tight supply situation and heavy civilian demands for aluminum, deliveries to the national stockpile during the third quarter of 1953 be deferred, and that future stockpiling decisions be made on a quarter-by-quarter basis. Further, that, because the normal 60-day lead time for the third quarter of 1953 commences on May 1, the decision with respect to stockpiling should be immediately transmitted to each of the primary producers so that they may plan their third-quarter acceptances in sufficient time to avoid delays in shipments to independent fabricators of aluminum.

The committee requested that copies of these recommendations be transmitted immediately to:

Dr. Arthur P. Flemming, Director, ODM.
Mr. James F. Brownlee, Deputy Director, ODM.
Hon. Sinclair Weeks, Secretary of Commerce.
Mr. S. W. Anderson, Assistant Secretary of Commerce.
Mr. H. B. McCoy, Acting Administrator, NPA.
Mr. M. B. Catlin, Director, Materials Division, ODM.

A majority of the committee recommended that everything possible be done to increase importations of pig aluminum—even at premium prices—for stockpiling purposes.

Minority recommendations: That set-aside metal be established as a pool of metal from which fabricators draw to the extent of their orders for military requirements and that proper safeguards be set up to insure equiable distribution of metal from the pool. Also, that the aluminum set-aside for military requirements not interfere with, or reduce, or take the place of aluminum to which any nonintegrated fabricator is entitled as the result of a private contract now in effect between such an operator and any domestic or foreign aluminum ingot producer. (Two members concurred in this recommendation; the majority of the committee were opposed as it would involve reinstitution of controls.)

Minority recommendation: That NPA reanalyze projected future civilian demands and review the present aluminum expansion program in order to determine the feasibility of giving the third round of expansion the same financial treatment as the second round. Further, that bans on expansion by existing primary aluminum producers be lifted. (Two members concurred in this recommendation; the majority of the committee did not feel that they were well enough informed to take a position on the matter.)

Majority recommendation: That an office be established in the General Services Administration for the purpose of administering the primary aluminum production the Government has reserved for nonintegrated producers in market guarantee contracts with companies participating in Government-sponsored programs to expand the national aluminum reduction capacity. It was requested that this recommendation be forwarded to GSA for presentation to the next Administrator of the agency. (Members not participating in this recommendation pointed out that GSA already has a unit established to deal with matters pertaining to the aluminum expansion programs.)

The committee unanimously recommended that, if consistent with security regulations, aluminum shipment figures compiled by NPA be made available to the industry.

After urging that industry advisory committees be continued after the expiration of the Defense Production Act on June 30 of this year, members of the committee unanimously approved a recommenation that a task force be appointed

to study the possibility of establishing a separate aluminum unit in the Department of Commerce. This task group should be instructed to report directly to NPA if its findings are unanimous; otherwise, back to this committee.

Permission was given NPA to appoint two other task groups—comprised of technical personnel from this industry—one to study and make recommendations on post-attack planning; the other to work on mobilization base studies.

DATE OF NEXT MEETING

No date was set for the next meeting of this committee.

ATTACHMENT 1

Estimated aluminum backlog end of 2d quarter, 1953

[Millions of pounds]

	Total	Program	AM
Total	144.8	123.1	21.7
Primes	[1] 126.0	106.0	[2] 20.0
Independents [2]	12.2	11.0	1.2
Distributors [1]	2.6	2.2	.4
Smelters [1]	4.0	3.9	.1

[1] From reports on NPAF–167 for Apr. 10, 1953.
[2] Actual backlog Feb. 28, 1953.

NOTE.—Backlog represents about 2 weeks of supply.

BACKLOG FOR SELECTED PERIODS

	Total	Program	AM
June 30, 1953 (estimate)	144.8	123.1	21.7
Mar. 31, 1953 (estimate)	153.7	132.0	21.7
Dec. 31, 1952	149.3	124.6	24.7
Sept. 30, 1952	131.7	112.9	18.8
June 30, 1952	106.7	85.9	20.8
Mar. 31, 1952	107.1	97.4	9.7

Estimated aluminum supply 1950–55

[Millions of pounds]

Source	1950	1951	1952				
			1st quarter	2d quarter	3d quarter	4th quarter	Total
Domestic pig production [1]	1,437	1,674	443	470	482	458	1,853
Pig imports [1]	354	245	56	46	70	54	226
Domestic secondary	487	557	145	142	139	171	597
Imported secondary	136	40	7	2	2	2	13
Subtotal	2,414	2,516	651	660	693	685	2,689
Adjustments	−23	−60	−3	−31	−50	+57	−27
Net supply	2,391	2,456	648	629	643	742	2,662

Source	1953					1954	1955
	1st quarter	2d quarter	3d quarter	4th quarter	Total		
Domestic pig production [1]	532	625	664	[2] 669	2,490	3,048	3,332
Pig imports [1]	154	111	62	47	374	250	250
Domestic secondary	152	169	182	183	686	731	862
Imported secondary	2	2	2	2	8	8	8
Subtotal	840	907	910	901	3,558	4,037	4,452
Adjustments	−43	−103	−129	−137	−412	−98	−75
Net supply	797	804	781	764	3,146	[3] 3,939	[3] 4,377

[1] Lagged 1 month for years 1952 and 1953; imports exclude Aluminum Import Corporation shipments of metal to be repaid by primes of 11,000,000 pounds in each of the 2d and 3d quarters of 1953.
[2] Power losses, estimated at 16 million pounds, have been deducted for October and November 1953.
[3] Before stockpiling.

ATTACHMENT II

The following memorandum, dated April 30, 1953, relative to the committee's recommendation on stockpiling of aluminum, was addressed and sent by Mr. T. A. Lynch, Director, Aluminum and Magnesium Division, NPA, to the following Government officials:

Hon. Sinclair Weeks, Secretary of Commerce.
Dr. Artnur S. Flemming, Director of the Office of Defense Mobilization.
Mr. J. F. Brownlee, Deputy Director, Office of Defense Mobilization.
Hon. S. W. Anderson, Assistant Secretary for International Affairs, Department of Commerce.
Mr. M. B. Catlin, Director of Materials Division, ODM.
Mr. H. B. McCoy, Acting Administrator of NPA.

At a meeting of the Prime Aluminum Products Industry Advisory Committee of the National Production Authority on Thursday, April 30, the members of the Committee unanimously recommended that the following resolution be transmitted to your office:

"That, because of the extremely tight supply situation and heavy civilian demand for aluminum, deliveries to the national stockpile during the third quarter 1953 should be deferred."

It was further recommended:

"That, because the normal 60-day lead time for the third quarter commences on May 1, the decision with respect to stockpiling should be immediately transmitted to each of the primary producers so that they may plan their third quarter acceptances in sufficient time to avoid delays in shipments to independent fabricators of aluminum."

By way of explanation, the members of the Committee representing various independent fabricator segments of the aluminum industry stated that to date they had received no firm confirmations on third-quarter orders offered to the producers. This was attributed to the fact that, to the extent metal is taken for the stockpile, the obligations of the primary producers under the expansion contracts to deliver aluminum to independent fabricators are reduced accordingly.

NOTE.—Lists of the membership of the Prime Aluminum Products Industry Advisory Committee were appended to these memorandums.

MINUTES OF MEETING OF ALUMINUM TASK GROUP, MAY 21, 1953, 10 A. M. E. D. T., NEW GAO BUILDING

T. A. Lynch, Aluminum and Magnesium Division, NPA, chairman

Committee members present at meeting:

J. W. Douglas, President, Republic Foil & Metal Mills, Inc., Danbury, Conn.
E. G. Fahlman, president, The Permold Co., Medina, Ohio
Leo M. Harvey, president Harvey Machine Co., Torrance, Calif.
A. A. Throckmorton, representing S. S. Inch, vice president, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Louis Lippa, vice president, Apex Smelting Co., Chicago, Ill.
Maxwell Caskie, representing D. P. Reynolds, vice president Reynolds Metals Co., Louisville 1, Ky.
R. W. Shaw, A. R. Purdy Co., Inc., Lyndhurst, N. J.
Mr. Leonard Starr, Michael Flynn Manufacturing Co., Philadelphia, Pa.
D. Wilmot, vice president, Aluminum Company of America, Pittsburgh, Pa.

Government representatives present at meeting:

Batman, Connor B., Office of Industry Advisory Committees, NPA.
Blumenreich, S. M., Aluminum and Magnesium Division, NPA.
Chapple, Bennett S., Jr., Assistant Administrator for Metals and Minerals.
Cullen, H. L., Miscellaneous Metals and Minerals Division, NPA.
Harris, Edwin A., Office of Defense Mobilization.
Peck, T., Aluminum and Magnesium Division, NPA.
Lynch, T. A., Aluminum and Magnesium Division, NPA.
Sgritta, D. Donald, Aluminum and Magnesium Division, NPA.
Snow, A. A., Aluminum and Magnesium Division, NPA.
Stephens, Wm. J., Iron and Steel Division, NPA.
Stephenson, G. E., Office of General Counsel, NPA.
Ford, M. Patricia, minutes writer, Aluminum and Magnesium Division, NPA.

The meeting was called to order and Mr. Batman explained that this was a duly appointed task group and it would follow rules of the industry advisory committees.

Mr. Lynch, chairman of the group, explained that the purpose of the meeting was to determine the organization of the Aluminum Division in the Department of Commerce after July 1. He called attention to information on the National Petroleum Council and on a similar council for the aluminum industry, which had been forwarded to the members prior to the meeting. Mr. Lynch also distributed copies of A Proposal for Collaboration Between the Federal Government and the Aluminum Industry for National Defense, prepared by Leo M. Harvey, of Harvey Machine Co., Inc., a member of the group.

The meeting was thrown open for discussion of views of the aluminum industry, with the explanation that if some procedure similar to this were not taken, aluminum would become part of a Miscellaneous Metals and Minerals Division in the Department of Commerce where it would have difficulty in having its view brought to the attention of the top echelon in Government at the proper time. Otherwise, they would report directly to the Office of the Secretary.

There was a general discussion of the organization of a task group which had been established for the purpose of forming a steel council. It was felt that having some knowledge of the details of the steel industry's proposals would aid the aluminum industry in reaching a decision with respect to the manner in which they should proceed. It was decided to ask the Director of the Steel Division to attend the meeting and explain the formation of the Steel Council to the members of the Aluminum Task Group.

In the meantime the members of the group were polled on whether or not they favored the establishment of an aluminum council. There was general agreement among all the members that a council should be established for the aluminum industry which at the same time would create a separate division for aluminum under the Secretary of Commerce or the Assistant Secretary of Commerce for Domestic Affairs.

One of the principal problems indicated by some members of the group lay in the possibility that the establishment of a council might be used as a method for instituting greater control over the aluminum industry than might otherwise be possible. This type of control, for example, would be similar to that established for the utilities and railroads. Nevertheless, the general feelings of the members of the group were that it would be to the tremendous advantage of the industry if all governmental matters were concentrated in a single agency with an aluminum council participating in the formulation of Government policies.

Mr. William J. Stephens, director, steel division (Bethlehem Steel Co.) was introduced to explain the steel industry's participation in establishing a council. The formal procedure started with Secretary Weeks' indicating the desirability of having in the Department of Commerce divisions, representing large industries, as the focal point for relations between Government and industry. Under this plan any Government agency involved in problems concerning an industry would seek information from the proper division in Commerce. The director of the American Iron and Steel Institute, at the request of Secretary Weeks, appointed Admiral Morrell to head an iron and steel task group to investigate the organization of a council and of an Iron and Steel Division in Commerce; the responsibilities of the Division and the council and their functions. In response to a question, Mr. Stephens explained that the council itself is to be outside of Commerce and was viewed as a permanent organization so that problems of steel arising within Congress or Government would be handled by the Iron and Steel Division of Commerce with the advice of the council.

Mr. Bennett S. Chapple, Jr., Assistant Administrator for Metals and Minerals was then introduced to the group and explained the formal procedure of establishing a council. There is first an informal invitation from the Secretary of Commerce to the industries of America to decide the degree to which they would like to use the Commerce Department and the Secretary's Office as their official representative in Government. The steel industry accepted the invitation and, through the Iron and Steel Institute, they appointed a committee. This committee came to see Secretary Weeks and offered their services in creating within Commerce an adequate Iron and Steel Division, generally paralleling the petroleum industry's organization in the Department of the Interior. The steel group was to submit drafts of organizational documents for the council and Division to the Secretary on May 22. The steel industry's attitude appears to be that they have avoided close relations with Government before. After 2 wars in 10 years the industry decided they would be better off if they keep their finger in to bring practical judgments to bear on some governmental problems. This would lead to beneficial results for both Government as well as industry. Their plan is to staff on a continuing basis rotating personnel from the steel industry. They stipulated that the industry division be elevated in stature to a level which permits it to report directly to the Secretary's Office or the Assistant Secretary for Domestic Affairs. Unless a metal industry chooses to exercise its rights under the Secretary's invitation, all metals would be placed in a Miscellaneous Metals and Minerals Division, Mr. Chapple stated.

Mr. Wilmot asked if copies of the steel proposal could be made available to the members of the aluminum task group. (A copy of organizational documents of a Council and Division has been sent to each member.)

Mr. Chapple stated how very much he appreciated the cooperation he received from the aluminum industry and from Ted Lynch and associates. "As a steel man" he stated "we compete with aluminum. You have been very tolerant and I do want to express my appreciation. I know you have a serious problem and I want to assure you I am doing what I can to bring that to a conclusion—and to a successful conclusion from your standpoint. Another thing Ted Lynch is leaving on June 20 and we must have a Director between the 20th and 30th of June." Mr. Lynch thanked Mr. Chapple in behalf of the group and the industry for his service to the Government and to industry and for his assistance in explaining the viewpoint of the Department of Commerce in establishing industry councils.

After several members voiced opinions regarding the desirability of forming an aluminum council, Mr. Lynch stated that it seemed to be the general opinion that the group should go forward and take necessary steps to explore further the moves taken by the National Petroleum Council and the steel industry to determine whether an aluminum council should be established. The next step he stated was for the group to convene for an appointment with the Secretary. The group agreed unanimously to proceed to organize an aluminum council outside the Department of Commerce and an Aluminum Division within the Commerce Department and requested Mr. Lynch to arrange for an appointment with the Secretary's Office on the day of the next meeting. Mr Wilmot was nominated and appointed to act as the group's spokesman at the meeting with the Secretary.

The next meeting of the group, it was agreed, would be Wednesday, June 3, at 9 a. m., to discuss proposed plans and meet with the Secretary. It was recommended that the steel proposal should be distributed as soon as possible. After receiving the steel proposal, the documents of the National Petroleum Council, and the proposal submitted by Mr. Harvey, each member was to send his comments directly to Mr. Lynch.

MINUTES OF MEETING OF ALUMINUM TASK GROUP, JUNE 3, 1953, NEW GAO BUILDING

T. A. LYNCH, Aluminum Division, NPA Chairman

Committee members present at meeting:
J. W. Douglas, president, Republic Foil & Metal Mills, Inc., Danbury, Conn.
E. G. Fahlman, president, The Permold Co., Medina, Ohio
Leo Harvey, president, Harvey Machine Co., Torrance, Calif.
A. A. Throckmorton (Representing S. S. Inch), Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Louis Lippa, vice president, Apex Smelting Co., Chicago, Ill.
David Reynolds, vice president, Reynolds Metals Co., Louisville, Ky.
R. W. Shaw, vice president, A. R. Purdy Co., Inc., Lyndhurst, N. J.
Leonard Starr, secretary, Michael Flynn Manufacturing Co., Philadelphia, Pa.
D. Wilmot, vice president, Aluminum Company of America, Pittsburgh, Pa.
Lawrence M. Brile (absent), Fairmont Aluminum Co., Fairmont, W. Va.

Government representatives present at meeting:
Batman, Connor B., Office of Industry Advisory Committees, NPA
Blumenreich, S. M., Aluminum Division, NPA
Cressman, Wm. L., Deputy Assistant Administrator for Metals and Minerals
Harris, Edwin A., Office of Defense Mobilization
Peck, T., Aluminum Division, NPA
Lynch, T. A., Aluminum Division, NPA
Sgritta, D. Donald, Aluminum Division, NPA
Snow, A. A., Aluminum Division, NPA
Stephenson, G. E., Office of General Counsel, NPA
Ford, M. Patricia, minutes writer, Aluminum Division, NPA

Mr. Lynch opened the meeting and called attention to the need for nominees for the position of Director and Deputy Director for the Aluminum Division, effective July 1, 1953, to serve from industry without compensation. The functions of the job of Director were delineated: It is a fulltime job—Monday through Friday—in Washington. Between the Director and Deputy Director either should be on the desk at all times. It was explained that a WOC could be compensated by his company and Government gives him $15 per day while on duty and pays travel back and forth once a week, when distance is reasonable. He must make at least $10,000 a year with his home company and have been employed for 1 year with that company.

In response to questions if Mr. Lynch would assume the Director's job, he stated he felt he had been here long enough—29 months. The industry had many men who could be furnished on a 6-month rotating, WOC basis that would not be too much of a hardship on anyone.

Mr. Cressman, Deputy Assistant Administrator for the Bureau of Metals and Minerals, was questioned as to whether the steel task group had made any progress on appointing a Director and Deputy Director for the steel division, or would Mr. Stephens continue. It was thought if the aluminum task group had an idea as to stature of the steel man nominated for that job it would serve as a guide in their choice for the Aluminum Division. Mr. Cressman stated that the steel industry man selected for the job of Director would have greater stature than any so far, in order that he will be able to speak with authority for steel and be of equal authority and stature at the Secretary of Commerce level. The man will serve on a rotating basis of not less than a year. They won't reach as high as presidents of companies.

It was stated that aluminum needed a man who has very wide experience in the industry; knows its wide ramifications: is well known to other members of industry and who will be accepted by the industry.

The independents were of the opinion that they would be unable to furnish a man to meet the qualifications, as their organizations are small and each company official is vital. Further they don't have the knowledge of primary production. It was thought the man should come from the primary producers, or a man with the independents who had been with the primary producers. Another suggestion was that the Director be supplied by the primary producers and the Deputy Director by the independents.

There was discussion as to whether the Deputy Director would step into the Director's job when his term was up. This would provide continuity. However as stated above it would depend upon the independents' supplying a man of broad enough experience to fit the top job. The group was in favor of the top job for

the first go-round being filled by the prime producers. Reynolds offered to supply the No. 2 man, if necessary.

The discussion disclosed that Reynolds and Kaiser felt that they had furnished men as Director and Deputy Director in the past (Lynch is retired from Reynolds Metals Co. and Throckmorton is with the Kaiser Aluminum & Chemical Corp.), therefore they thought that the Aluminum Company of America should provide the Director or Deputy Director at this time. Several members representing the independent fabricators expressed this same viewpoint.

Mr. Wilmot agreed that it seemed logical that the individual should come from the integrated producers, but felt that it was necessary and appropriate for the independents to voice that opinion, rather than he. He had no names of Alcoa men, but was sure he could have the company decide upon an individual who would be acceptable. Alcoa is reluctant to give up a man, but is perfectly willing to provide a man for the directorship since the industry rather unanimously feels they should.

Suggested Alcoa names were called for from the committee. They were reluctant, and Mr. Cressman stated that in steel it is the accepted practice for other companies to suggest a man from the company whose turn it is to supply one. The following Alcoa men were suggested—Mr. Hugo Wilder (in charge of distribution) Mr. Harry L. Smith, Jr. (Mr. Wilmot's assistant). Bob Learnerd was also mentioned, but some thought that a Washington representative was not appropriate. The following Reynolds men were suggested: I. P. McCauley, James Stewart, and Paul Fox.

It was the consensus of the group that with a Director to be furnished by the Aluminum Company of America, the job of Deputy Director should be filled by a WOC from the independents, if possible. Mr. Harvey said he would check to see if one of his men might be available for Deputy Director.

There was some discussion as to length of time men should spend in the job. The group decided 6 months would be sufficient as pressures would not be the same as during the recent emergency period. It was suggested that the rotation be staggered so that the new man reporting in would have 3 months with an experienced man. This would necessitate the first Director or Deputy Director staying 9 months. The discussion was closed and the group agreed to discuss it further at the Aluminum Association meeting at White Sulphur Springs and report to Mr. Lynch prior to June 12 as to the men selected.

This was followed by a discussion of the organization of a national aluminum council. It was noted that the procedure followed in establishing the National Petroleum Council was for the Secretary to appoint the members of the council from a panel of top executives in the industry furnished him by industry and the Government industry division. The task group suggested that such a list of 50 or more names be compiled for submission to the Secretary of Commerce to enable him to appoint a council of 25, or such larger number as he desires.

Several members of the task group felt that the National Petroleum Council pattern should be followed closely, inasmuch as it proved successful over the past 6 years both from the standpoint of Government and of the petroleum industry. Others felt that a smaller setup would serve the aluminum industry just as well. One member pointed out that the pattern of the National Petroleum Council conflicted with the Attorney General's rulings on advisory committees which resulted in the disbanding of the National Minerals Advisory Council and the National Bituminous Coal Advisory Council even though the Secretary of the Interior said both committees had been very valuable to his agency and he wanted to continue them. The task group said they would discuss the matter in their meeting with the Secretary's office and would obtain the type of setup that would best serve the interests of the Government and industry and still meet the requirements of the Department of Commerce and the Department of Justice. In the meantime the plans submitted by members of the aluminum industry, which were modifications of the National Petroleum Council and the Steel Council, were discussed in detail.

The task group had some objection to having a Government officer presiding at the Council meetings. The main point stressed was that the Secretary of Commerce or his assistant was to preside at all meetings of the Council. Under these circumstances it would be impossible for the Council to call a meeting for the purpose of discussing pending matters or to meet an emergency affecting the industry, but rather it would be in the position of having to request such a meeting and having to await the convenience of the Secretary or his assistant as to the selection of the date and time at which they could preside. If the meeting were to be chaired by a member of the Council, as in the case of the National Petroleum Council, this problem would not exist.

It was pointed out that any Member of Congress, Government employee, or businessman who has business coming before the Council is accepted for attendance at the Council meetings.

One of the task group members said that he strongly favored the organization of any council that would promote better understanding and facilitate the solution of problems between the Government and industry, but he is not in favor of unnecessary controls or interference by Government in regular, legitimate business operations.

The fact was brought out that members of the National Petroleum Council feel that it is imperative that a top industry executive serve as their chairman because he would understand the terminology and the technicalities of the problems being discussed by the Council.

The group was in agreement that the project committees should be free to meet wherever necessary—on Government property or otherwise. It was said that a paid secretary would be important as it would be his sole responsibility to see that the will of the meeting is carried out, records and minutes kept, and copies promptly distributed as authorized.

There was some question as to whether industry advisory committees would continue to operate with the Aluminum Division. It was stated that the industry advisory committees were only set up under the Defense Production Act and can only act on problems under that act. It was agreed that if it were possible advisory committees should be continued, as has been recommended unanimously by every Industry Advisory Committee of the Aluminum Division, NPA.

To channel the discussion it was suggested that one of the proposed organization documents be selected and read paragraph by paragraph in order that objections could be recorded and changes made on the document so that it would be in proper shape to present to the Secretary of Commerce or his Assistant Secretary. The rules of Organization and Procedures Section of the organization documents as submitted by the Aluminum Company of America, an adaptation of the Steel Council proposal, was selected for this purpose.

The task group approved the wording of the title: "Aluminum Advisory Council to the Department of Commerce." The following paragraphs, 1. "Purpose," 2. "Officer," 3. "Committees," and 4. "Vacancies," were approved as written.

The first sentence of paragraph 5. "The Chairman" was changed to read as follows: "The Chairman shall be the principal officer of the Council and shall authorize all expenditures and perform such other duties as pertain to the Office of Chairman, except that the presiding officer at all meetings of the Council shall be the Secretary of Commerce or the Assistant Secretary for Domestic Affairs or the Director of the Aluminum Division." If an executive from the industry can legally serve as chairman, it is preferred for the reasons stated above.

The following paragraphs, 6. "The Vice Chairman," and 7. "The Secretary-Treasurer," were approved as written.

In paragraph 8, "Meetings of the Council," second sentence, "Twenty percent" was inserted, reading as follows: "Twenty percent or more members of the Council may at any time request the Secretary or the Assistant Secretary for Domestic Affairs to call a special meeting." The remainder of the paragraph was approved as written.

The following paragraphs, 9. "Call of Meeting," 10. "Voting Power and Quorum," and 11. "Appointment Committee," were approved as written.

Paragraph 12. "Agenda Committee" was approved with the addition of two sentences from section B–12 of the National Petroleum Council Organization rules, which reads as follows: "Any matter which any council member wishes to have considered by the Council shall be submitted in writing to the Chairman of the Council who shall, prior to any discussion by the Council, refer the matter to the Secretary or Director for approval or disapproval. If approved, the matter shall then be referred to the Agenda Committee for its report, as therein provided."

Paragraph 13. "Project Committees" was approved as written.

Paragraph 14. "*Minutes of Meetings*", second sentence, was changed to read as follows: "Copies of the minutes of the council, all reports of the committees, and all reports submitted by the Council or by any of its committees shall be filed with the Secretary of Commerce, the Assistant Secretary for Domestic Affairs and the Director of the Aluminum Division." It was further suggested that paragraph 17 of the National Petroleum Council Organization Rules be added to this paragraph. It reads as follows: "Any Council or committee member who feels that the Council or a committee has failed to give appropriate consideration to views or proposals presented by him at a regularly constituted meeting may make his viewpoint a

part of the record of that meeting by submitting within 5 days of the date of such meeting a written statement to the chairman of the meeting for incorporation in the minutes."

The group recommended that the following paragraph, as written in the organization and rules of the Steel Advisory Council proposal, be inserted after paragraph 14. It reads as follows: "15. *Operating Expenses.* Operating expenses of the Council and all of its committees shall be met from a fund to which contributions may be made by individual members of the Council and by companies engaged in the aluminum industry. At the Council's first meeting in each calendar year, the Treasurer of the Council shall present a suggested budget for the ensuing year and expenditures for ordinary operating expenses during each year shall be limited to the amount approved by the Council at such meeting."

Paragraph 15. "*Amendment*" was renumbered "16" and approved as written.

This was followed by a discussion of trade association representation on the Aluminum Council. One member felt that trade associations should be eligible for membership on the Council, but the majority of the task group did not agree with this inasmuch as they felt that trade associations had adequate representation through the members of the Council who were also active members of the trade associations in industry.

Mr. Wilmot, spokesman for the group who will meet with Assistant Secretary Sheaffer asked for a vote on the following action. Should he state: "I am authorized by the members of the aluminum task group to submit this proposal as purely a rough draft patterned very closely after the Steel Division's proposal with very minor changes, all of which have been discussed at the meeting this morning." All members recommended that this was the appropriate way to handle it, and the meeting was adjourned, with the request that the committee chosen to meet with the Secretary of Commerce meet at the Secretary's office in plenty of time prior to the time set for the meeting scheduled at 2:30 in the afternoon.

ORGANIZATION DOCUMENTS OF THE ALUMINUM ADVISORY COUNCIL TO THE DEPARTMENT OF COMMERCE

Explanatory Statement Regarding the Establishment of the Aluminum Advisory Council to the Department of Commerce

The Department of Commerce has recognized the everincreasing importance of aluminum to our national welfare by establishing in the office of the Secretary an Aluminum Division for the purpose of enabling the Department more efficiently to perform its task of fostering the production of aluminum by private industry

The advice and assistance of aluminum industry advisory groups has been found to be indispensable in the solution of wartime problems relating to the supply of aluminum products for military and defense supporting programs. The continuing importance of the Department's task is such as to require that there be available to the Department at all times the advice and information that can be furnished only by a qualified aluminum industry advisory committee.

Under date of October 19, 1950, the Deputy Attorney General advised the Secretary of Commerce that "As a general matter we are of the view that the decision as to the necessity for the formation of industry committees to advise a Government department and the responsibility for their information rests with the specific department." He stated that there are however "certain requirements which should be met in order to minimize the possibility of violation of the antitrust laws," and therefore, "There must be statutory authority for the employment of such committees or there must be an administrative finding that it is necessary to utilize such committees to perform certain statutory duties."

The Defense Production Act of 1950, as amended, is an example of statutory authority for the employment of industry advisory committees. However, the authority contained in that act to utilize the services of an industry committee should be confined to the administration of the powers otherwise granted by the act.

The other procedure mentioned by the Deputy Attorney General for the formation of an industry advisory committee, i. e., an administrative finding that it is necessary to utilize such a committee to perform certain statutory duties, may however, be adopted by virtue of the provisions of section 3 of the act of February 14, 1903, creating the Department of Commerce, which reads as follows:

Note.—Revised in accordance with recommendations of aluminum task group, June 8, 1953.

"Powers and duties of Department: It shall be the province and duty of said Department to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping and fishery industries, and the transportation facilities of the United States; and to this end it shall be vested with jurisdiction and control of the departments, bureaus, offices, and branches of the public service hereinafter specified, and with such other powers and duties as may be prescribed by law," (32 Stat. 826).

On the basis of an administrative finding that it is necessary for the Department of Commerce to utilize an aluminum advisory group to perform its statutory duty to foster the aluminum industry, the Secretary of Commerce might establish such a committee and prescribe its function. In so doing, the Secretary should state rules for the conduct of the council that will assure conformance with the rules set forth in the October 19, 1950, letter of the Deputy Attorney General. A copy of that letter is attached to this explanatory statement for further reference.

In addition, the Secretary should submit to the Attorney General for clearance the proposal to establish the Aluminum Advisory Council to the Department of Commerce at this time.

There is attached a suggested form of notice for issuance by the Secretary of Commerce establishing the council. This notice defines the organization and function, and prescribes rules of procedure for the council. There is also attached a suggested form of letter to the Attorney General submitting the proposal for ruling.

OCTOBER 19, 1950.

The honorable the SECRETARY OF COMMERCE,
Washington, D. C.

MY DEAR MR. SECRETARY: In several instances various Government departments have requested the views of the Department of Justice with respect to whether participation by members of an industry in the activities of industry advisory committees would be considered a violation of the antitrust laws. In view of the recent increase in the number of such requests, it is felt that a statement of the Department's position in this regard might be helpful.

As a general matter we are of the view that the decision as to the necessity for the formation of industry committees to advise a Government department, and the responsibility for their formation, rests with the specific department. However, in organizing such committees, there are certain requirements which should be met in order to minimize the possibility of violation of the antitrust laws. Briefly stated these requirements are:

(1) There must be statutory authority for the employment of such committees or there must be an administrative finding that it is necessary to utilize such committees to perform certain statutory duties.

(2) The agenda for such committees and their meetings must be initiated and formulated by the Government.

(3) The meetings to be held must be at the call of and under the chairmanship of full-time Government officials.

(4) Full and complete minutes of each meeting must be kept.

(5) The functions of such committees must be purely advisory and any determinations of action to be taken must be made solely by Government representatives.

So long as the activities of industry advisory committees are carried on within these limitations, we would not view the activities as constituting an independent violation of the antitrust laws. We wish to emphasize, however, and it should be made clear to participants in such activities, that the Department of Justice retains complete freedom to institute proceedings, either civil or criminal, or both, in the event that any particular plan or course of action is used to accomplish unlawful private ends. Further, this Department retains full freedom to institute civil actions to enjoin continuance of any acts or practices found not to be in the public interest and persisted in after notice to desist.

Yours sincerely,

PEYTON FORD, *Deputy Attorney General.*

LETTER TO THE ATTORNEY GENERAL REGARDING THE ESTABLISHMENT OF THE ALUMINUM ADVISORY COUNCIL TO THE DEPARTMENT OF COMMERCE

The contributions made by industry advisory committees to the solution of Government problems relating to aluminum for military and defense supporting programs has demonstrated the need for a permanent industry advisory group available to the Department of Commerce at all times for advice and information

essential to the work of the Department. Accordingly, I propose to establish the Aluminum Advisory Council to the Department of Commerce, to which I will appoint individuals who are outstanding in the aluminum industry and are qualified to provide the assistance we require from private business.

The council will be expected to furnish advice and information concerning the aluminum industry as required by the Department of Commerce in the exercise of its statutory duty to foster, promote, and develop industry in the United States in accordance with the act of February 14, 1903 (32 Stat. 826).

Membership of the council will be drawn from both large and small, and from both integrated and nonintegrated companies in the aluminum industry, as well as from some collateral industrial activities so as to provide broad and adequate representation for the various segments and business interests in the industry.

Meetings of the council will be held solely at the call of the Department of Commerce and the agenda for each meeting will be initiated and formulated by the Department. A representative of this Department will act as presiding officer at each meeting of the council. Also, a representative of this Department will keep full and complete minutes of each meeting of the council and copies of such minutes will be distributed to interested parties.

The functions of the council will be solely advisory and any determination of action to be taken will be made by representatives of this Department.

The council will establish its own organization and procedures within the limits above described.

Your views and suggestions concerning the foregoing proposal will be very much appreciated.

THE ALUMINUM ADVISORY COUNCIL TO THE DEPARTMENT OF COMMERCE

ORGANIZATION AND FUNCTIONS

1. *Purpose.*—The purpose of this Notice is to establish an industry advisory group for the aluminum industry, to be known as the Aluminum Advisory Council to the Department of Commerce, to inform and advise the Secretary, the Assistant Secretary for Domestic Affairs, the Director of the Aluminum Division and other departments and agencies of the Government with respect to any matter affecting the aluminum industry submitted to it by or with the approval of the Secretary, Assistant Secretary, or the Director.

2. *Finding of essentiality.*—The Council is deemed essential in order to make available qualified industry representatives who will furnish advice and information concerning the aluminum industry as required by the Department in the exercise of its statutory duty to foster, promote, and develop industry in the United States in accordance with the act of February 14, 1903 (32 Stat. 826).

3. *Organization.*—The Council shall be composed of members appointed by the Secretary from among qualified representatives of the various segments of the aluminum industry and of collateral industrial activities.

4. *Function.*—It shall be the function of the council to advise and inform the Secretary, the Assistant Secretary for Domestic Affairs, the Director of the Aluminum Division, and other departments and agencies of the Government with respect to matters affecting the Aluminum Industry which are submitted to it by or with the approval of the Secretary, the Assistant Secretary for Domestic Affairs, or the Director of the Aluminum Division.

5. *Procedures.*—The rules prescribed in the letter of the Deputy Attorney General to the Secretary of Commerce of October 19, 1950, shall govern the functions and conduct of the council. Consistent with these rules—

(*a*) The agenda for the council and its meetings will be initiated and formulated by the Secretary, the Assistant Secretary for Domestic Affairs, or the Director of the Aluminum Division.

(*b*) Meetings of the Council will be held at the call of and under the chairmanship of a representative of this Department.

(*c*) Full and complete minutes of meetings of the Council will be kept by a representative of this Department.

(*d*) The functions of the Council will be solely advisory and any determination of action to be taken will be made by representatives of this Department.

6. *Effective date.*—This Notice is effective July 1, 1953.

SECRETARY OF COMMERCE.

Invitation to Membership in The Aluminum Advisory Council to the Department of Commerce

During the recurring national emergencies, the Department of Commerce has found that aluminum industry advisory groups have afforded reliable sources of information and advice essential to the solution of government problems affecting the Aluminum Industry.

The benefits to be derived from such advisory groups and the importance of the problems of government relating to the Aluminum Industry have demonstrated the need for a permanent industry advisory committee. Accordingly, I have established the Aluminum Advisory Council to the Department of Commerce, from which advice and information required for the efficient handling of public affairs affecting the Aluminum Industry may be obtained. Membership of the Council will consist of individuals who are outstanding in the Aluminum Industry or in one of the allied industrial activities. I ask that you accept membership on the Council as a public service and that you agree to serve without compensation for a term of 1 year commencing July 1, 1953.

The Council's first meeting will be held in Room —— of the Department of Commerce Building, at —— m. o'clock on June ——, 1953.

The agenda for the first meeting will consist of the adoption of Rules of Organization and Procedure of the Council, the election of officers, the appointment of committees, and such other matters as shall be related thereto.

I trust that you will be able to advise me promptly that you will accept membership in the Council and that you will attend the first meeting.

Rules of Organization and Procedure of the Aluminum Advisory Council to the Department of Commerce

1. *Purpose.*—It is the purpose of the Aluminum Advisory Council to the Department of Commerce to inform and advise the Secretary of Commerce, the Assistant Secretary for Domestic Affairs, the Director of the Aluminum Division and other departments and agencies of the Government with respect to any matter which affects the Aluminum Industry, submitted to it by or with the approval of the Secretary, Assistant Secretary for Domestic Affairs, or the Director of the Aluminum Division. However, the Council will first consider whether or not it is proper and advisable that the Council should furnish advice or information concerning any such matter. The Council will not consider any matters involving trade practices or secrets, or that fall within the purview of the antitrust laws.

2. *Officers.*—The officers of the Council will consist of a chairman and a vice-chairman, who will be members of the Council and will serve without compensation, and a secretary-treasurer, who may but need not be a member of the Council, who shall receive such compensation, if any, as the Council shall determine. The chairman and vice-chairman shall be elected by the Council at its organization meeting each year, to serve until the next organization meeting of the Council. The secretary-treasurer and his successors shall be appointed from time to time by the chairman with the advice of the Appointment Committee.

3. *Committees.*—The Council shall elect at its organization meeting each year an Agenda Committee and an Appointment Committee to serve until the next organization meeting of the Council. Each committee shall have ------ members. All persons elected to these committees shall be members of the Council. Special Project Committees shall be appointed as provided in paragraph 5, to serve as required.

4. *Vacancies.*—A vacancy in the Office of Chairman or Vice Chairman, and any vacancy on the Agenda or Appointment Committee shall be filled by election of the Council at the meeting next following the occurrence of such vacancy.

5. *The Chairman.*—The Chairman shall be the principal officer of the Council and shall authorize all expenditures and perform such other duties as pertain to the Office of Chairman, except that the presiding officer at all meetings of the Council shall be the Secretary of Commerce or the Assistant Secretary for Domestic Affairs, or the Director of the Aluminum Division. The Chairman shall, with the advise of the Appointment Committee, appoint all Special Project Committees and the members thereof, as the need arises. Persons appointed to such committees shall be selected as provided in paragraph 13 and may or may not be members of the Council.

6. *The Vice Chairman.*—In the basence or inability of the Chairman to act, the Vice Chairman shall exercise all the duties and authorities granted to the Chairman.

7. *The Secretary-Treasurer.*—The Secretary-Treasurer shall perform such duties as usually pertain to the Office of Secretary and the Office of Treasurer and as are required of him by the Chairman and by the Council. He shall be responsible for the custody of all Council funds and shall disburse them only upon authorization of the Chairman.

8. *Meetings of the Council.*—The Council shall hold an organization meeting annually immediately following the appointment of the members of the Council by the Secretary of Commerce, and shall hold such special meetings as may be called by the Secretary of Commerce or the Assistant Secretary for Domestic Affairs. Twenty percent or more members of the Council may at any time request the Secretary or the Assistant Secretary for Domestic Affairs to call a special meeting. All meetings of the Council shall be held at the Department of Commerce, Washington, D. C., or in such other place as may be designated by the Secretary of Commerce or the Assistant Secretary for Domestic Affairs.

9. *Call of meetings.*—All regular and special meetings of the Council shall be held upon call of the Secretary of Commerce or the Assistant Secretary for Domestic Affairs. At least 10 days' notice of every meeting of the Council shall be given to each member unless an emergency requires shorter notice. The agenda for each regular and special meeting shall be initiated and formulated by the Department of Commerce and shall be set forth in full in the Notice of Meetings. The time and place of all Council meetings shall be given general publicity and all such meetings shall be open to members of Congress and other Federal officials and others who may have an interest therein and who may be invited by the Secretary of Commerce or the Assistant Secretary for Domestic Affairs. Members of any special Project Committee may be present at any meeting of the Council during consideration of the subject assigned to such committee.

10. *Voting power and quorum.*—At all meetings of the Council each member shall be entitled to one vote. A majority of the members of the Council shall constitute a quorum for the transaction of business. Unless otherwise specially provided in these Rules, all matters shall be decided by the majority vote of the members present at a duly constituted meeting.

11. *Appointment Committee.*—The Appointment Committee shall advise and consult with the Chairman regarding the appointment of special Project Committees and the members thereof. It shall also advise and consult with the Chairman with respect to the appointment of the Secretary-Treasurer.

12. *Agenda Committee.*—The Agenda Committee shall consider each matter submitted to the Council in advance of the meeting of the Council. The committee shall consider whether the matter is proper and advisable for Council consideration and shall report its views thereon as promptly as possible directly to the Council. The committee may consult legal counsel of its own choosing with respect to all matters referred to the committee for consideration and report. If the Council shall deem the matter proper and advisable for its consideration, the members of the Council shall proceed to take such action as may be appropriate under the circumstances. Any matter which any council member wishes to have considered by the Council shall be submitted in writing to the Chairman of the Council who shall, prior to any discussion by the Council, refer the matter to the Secretary or Director for approval or disapproval. If approved, the matter shall then be referred to the Agenda Committee for its report, as therein provided.

13. *Project Committees.*—Project Committees shall be appointed as needed, in accordance with paragraph 5, to undertake specific assignments for the Council. Members of the Project Committees shall be selected on the basis of their individual qualifications to deal with matters assigned to them by the Council. Such committees shall be dissolved when they have completed their assignments and all Project Committee appointments shall be for a term ending not later than the date of the next organization meeting of the Council.

14. *Minutes of meetings.*—Full and complete minutes of all meetings of the Council shall be kept by Department of Commerce representatives. Copies of the minutes of the Council, all reports of the committees, and all reports submitted by the Council or by any of its committees shall be filed with the Secretary of Commerce, the Assistant Secretary for Domestic Affairs and the Director of the Aluminum Division. Copies of the minutes of the Council meetings shall be made available to all members of the Council, and copies of the minutes of each committee meeting shall be made available to all members of the Council and members of such committee. Any Council or committee member who feels that the Council or a committee has failed to give appropriate consideration to views or proposals presented by him at a regularly constituted meeting may make his viewpoint a part of the record of that meeting by submitting within 5 days of

the date of such meeting a written statement to the chairman of the meeting for incorporation in the minutes.

15. *Operating expenses.*—Operating expenses of the Council and all of its committees shall be met from a fund to which contributions may be made by individual members of the Council and by companies engaged in the aluminum industry. At the Council's first meeting in each calendar year, the Treasurer of the Council shall present a suggested budget for the ensuing year and expenditures for ordinary operating expenses during each year shall be limited to the amount approved by the Council at such meeting.

16. *Amendment.*—Any Council member may propose any amendment to these Rules by filing a copy of the proposed amendment with the Secretary of Commerce or the Assistant Secretary for Domestic Affairs, and the Chairman of the Council, and, if it is included in the agenda, the Chairman shall present the proposed amendment for action by the Council at the next meeting duly convened after at least 10 days' notice to all members of the Council of that purpose. To be effective, such amendment shall be approved by a two-thirds vote of those present provided that such two-thirds vote constitutes at least a majority of the entire membership of the Council.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION

WASHINGTON, D. C.

ALUMINUM TECHNICAL CONFERENCE, NOVEMBER 12, 1953

HARRY L. SMITH, JR., ALUMINUM AND MAGNESIUM DIVISION, BDSA, EDWIN A. HARRIS, LIGHT METALS DIVISION, ODM, GOVERNMENT PRESIDING OFFICERS

Industry representatives present:
C. F. Nagel, Jr., Aluminum Company of America, Pittsburgh, Pa.
W. V. R. Gilbert, Aluminum Company of America, Washington, D. C.
Louis Lippa, Apex Smelting Co., Chicago, Ill.
Lawrence M. Brile, Fairmont Aluminum Co., Fairmont, W. Va.
William J. Edmunds, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Ward Humphreys, Kaiser Aluminum & Chemical Corp., Washington, D. C.
Harold C. Wilson, Revere Copper & Brass, Inc., New York, N. Y.
Leo Howell, Revere Copper & Brass, Inc., New York, N. Y.
Owen Snyder, Reynolds Metals Co., Richmond, Va.
Maxwell Caskie, Reynolds Metals Co., Washington, D. C.

Government representatives present:
Department of Commerce:
Business and Defense Services Administration:
Charles F. Honeywell, Administrator.
Everett G. Fahlman, Aluminum and Magnesium Division.
Charles R. Hersum, Industry Advisory Committee staff.
Richard Blaisdell, Office of Public Information.
Rose Robins, summary writer.

Office of Defense Mobilization:
Paul A. Cooley, Procurement and Storage Standards and Directives staff.
James P. Durkin, Assistant General Counsel.

Other agencies:
Raymond Eberly, Emergency Procurement Service, GSA.
Dr. T. C. May, Office of Assistant Secretary of Defense (S. and L.).
Col. R. P. Gentry, Department of the Air Force.
Joe Willis, Small Business Administration.

PURPOSE OF THE CONFERENCE

The Aluminum Technical Conference, comprised of representatives from the aluminum producing and consuming industries, was held on November 12, 1953, under sponsorship of the Business and Defense Services Administration for the purpose of obtaining for the Office of Defense Mobilization industry's advice as to the necessity for modifying stockpile specification P–62–R.

Mr. Harry L. Smith, Jr. (Aluminum and Magnesium Division, BDSA), and Mr. Edwin A. Harris (Light Metals Division, ODM) were the Government presiding officers.

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OPENING REMARKS

BDSA Administrator Charles F. Honeywell welcomed the conferees and expressed his appreciation for their interest and cooperation in assisting ODM, BDSA, and other Government agencies in the solution of a difficult problem.

DISCUSSION OF STOCKPILE SPECIFICATION P–62–R

Statement of the problem.—With resumption of aluminum stockpiling in the second quarter, several primary producers of aluminum requested and received, quarterly, permission to deviate more or less from stockpile specification P–62–R. The requests were based on inability of the companies to meet their stockpile commitments in conformity with P–62–R without depleting supplies to a level below that needed to fulfill other requirements, Mr. Harris explained.

Aluminum stockpiling is a security measure, and the product wanted is the type that would be required by the industry should withdrawals from the stockpile become necessary, Mr. Harris emphasized. On the other hand, if the specification is unnecessarily high, perhaps it should be modified, he remarked, adding that the granting of special exceptions each quarter is not a straight-forward way of handling the problem and is a nuisance for both industry and Government.

The problem, then, he continued, is to determine whether P–62–R should and can be modified without impairing either the rapid accumulation of a stockpile or the utility of the metal going into it. The problem should be viewed in light of the fact that the stockpile must be accumulated as rapidly as possible and in the least burdensome manner.

Guidelines along which the matter might be considered, Mr. Harris suggested are the wartime product mix that might have to be produced from stockpile metal and the percentage of secondary metal (scrap) that would be included in a wartime metal supply.

Mr. Harris then distributed the following list showing estimates of a wartime product mix. He explained that, because of security regulations, the exact tonnages needed in event of war could not be revealed, but he believed that the list, as drawn, would be helpful from the standpoint of determining purity of the metal that would be required. Some adjustments to the percentages shown may have to be made after studies are completed, Mr. Harris explained, but he doubted that they would be extreme.

Estimated wartime product mix (expressed as percent to total)

	Percent
Sheet, strip, and plate	[1] 45. 0
Foil and powder	3. 1
Extruded shapes, including forging stock	11. 1
Tubing	2. 4
Rod and bar, excluding wire, forging stock, cable stock, and structural shapes	10. 5
Rod and bar, forging stock	9. 8
Wire, cable, rivets, rivet wire	. 7
Rolled structural shapes	. 9
Castings:	
Sand	8. 5
Permanent mold	2. 3
Die	2. 9
Destructive uses	2. 8
Total	100. 0

[1] Estimates are that between 60 and 70 percent of this figure would be hard alloy and the remainder normal alloy.

With respect to secondary metal, Mr. Harris explained, the figures assume that supplies of such material will follow the present-day pattern, which is very close to historical and which amounts to about 20 percent of the total.

Mr. Harris foresaw at least one problem regarding the use of secondary metal in wartime. In the production of a so-called peacetime product mix, there are undoubtedly increased uses for secondary metal. However, the efficient use of 20 percent of the total metal supply in the form of secondary metal may be a problem in a wartime mix. It may be necessary to blend the secondary metal to make it usable, and this should be remembered in considering modification of the specifications.

View of the Department of Defense.—Dr. T. C. May (Office of the Assistant Secretary of Defense (Supply and Logistics) said that his Department has always felt that it is not competent to tell industry what quality of material it will need to meet military orders in an emergency. He also pointed out that the current specification was developed with the realization that large quantities of scrap would have to be sweetened and that efforts were made to specify the quality of material that would be most widely used.

Views of aluminum producers.—A normal consequence attending the start-up of new plants, it was brought out, is the production of a substantial volume of metal which is not quite up to commercial specifications because of its high iron and silicon content. Discarding such metal is uneconomical, and a common practice is to blend it with high-purity metal to make it usable. This constitutes a drain on high-purity metal supplies which are also needed to meet stockpile demands. The condition is temporary and is not expected to last beyond the end of 1954.

Two producers reported that they have been operating under this handicap for the past year. One is bringing in another new plant in November and expects the new production handicap to prevail for another year. Both companies, under exemptions granted quarterly, have fulfilled their stockpile commitments with metal of at least 99.3 minimum purity and 99.5 average purity.

Stockpile specification P–62–R, a conferee believed, is rather idealistic. He believed, however, that with new plants still coming in, it is unrealistic to expect the industry to produce metal of P–62–R quality in sufficient quantities for both the stockpile and normal raw-alloy requirements for even a peacetime product mix. The requirement is even more stringent with the country still on a partial mobilization basis.

In the best interest of the Government, the industry, and the public, this conferee strongly urged that during 1954 the industry be permitted to deliver to the stockpile metal of lesser purity than called for by P–62–R. He proposed the following alternatives:

(1) Complete elimination of the maxima of impurities. P–62–R now calls for a minimum aluminum content of 99.6 percent, but requires maxima of silicon and iron of 0.15 and 0.25 percent, respectively. To meet these specifications, a purity of 99.7 percent must be attained. To that extent P–62–R is a misleading specification.

(2) During 1954 the industry should be allowed to furnish metal to the stockpile in accordance with the exemption specification which is 99.5 average purity and 99.3 minimum purity.

(3) During 1954 the industry should be allowed to furnish commercial grade metal for the stockpile.

Another conferee questioned the need for a stockpile specification of 99.6 purity to manufacture the estimated wartime product mix as submitted by Mr. Harris. He suggested a minimum average of 99.6 purity rather than the 99.6 minimum now required for stockpile metal. Maintenance of this average would require no reduction of the chemical properties, he claimed, adding that once the purity is settled no great problem would be presented by the iron content. He also pointed out that the production of 99.7 aluminum is almost automatic under the present 0.25 iron specification.

Both of the above-mentioned conferees believed that no difficulty would be encountered in supplying the wartime product mix from metal of the lesser purity. The further suggestion was made that P–62–R should be reviewed to determine whether the 99.6 minimum is necessary as a permanent specification. One conferee felt that at least another year's experience is necessary before the industry will be in a position to say whether P–62–R is too high or too low.

Mr. Smith pointed out that, depending on when an emergency arises, more new plants than are now anticipated might have to be brought in. Thus, the problem of utilizing substantial quantities of low-grade metal would still be present, and a stockpile of high-purity metal would be needed to put such supplies in usable form.

The third producer advocated that material going into the stockpile should be of a purity that would permit the use of substantial quantities of scrap while at the same time enabling the industry to produce 24–S and 75–S metal. He favored relaxation of the purity standard only if the specifications for 24–S and 75–S metal were altered as to strength requirements. This, he explained, would create engineering and design problems. Granting that some items in the wartime product mix do not require high-purity metal, he did not oppose stockpiling metal of somewhat lesser purity to meet specifications for those products.

In considering purity requirements for stockpile metal, this conferee urged that allowance be made for the utilization of scrap with a degree of contamination. He recalled the shortages of World War II when the industry had to use scrap that was generated principally in the aircraft industry. Considerable work had to be done in aircraft and other using plants to establish systems for reducing the amount of contamination that resulted particularly from using stainless steel scrap. Although a good job was done, contamination was not completely eliminated.

Speaking on the iron content, the conferee pointed out that definite figures are available as to the amount by which an increase of x/1,000 percent lowers mechanical properties. It may be unrealistic to tie 0.25 maximum iron content to 99.6 purity, he explained, since the result is 99.7 purity. He indicated his willingness, however, to have the minimum purity requirements eliminated completely as long as a minimum iron requirement is retained. Limitation of the iron content is of great importance where production of large tonnages of 24–S and 75–S material for aircraft is involved because of the quantities of scrap which are generated. Without a maximum iron content, it would be possible to use such scrap in only minute quantities.

Another conferee pointed out that the necessity for having high-purity metal for special purposes is well recognized. He called attention to the fact that, within the foreseeable future, 18 plants will be turning out a full range of normal-purity production, some of which will average 99.6 or 99.7. He also pointed out that, without requirements of the stockpile from 1950 on, the industry would have had only a very modest purity problem had it been able to shift from peacetime to wartime production with an average of 99.5 purity metal. Recognizing the desirability of having metal of the highest purity attainable in the stockpile, the conferee emphasized that the tonnage needed cannot be obtained with a 99.6 minimum purity requirement.

In discussing the feasibility of stockpiling blended metal, the conferees (producers and consumers) believed that such a practice would hamper operating flexibility since the blends might vary and could not be accurately identified. A range of grades in the stockpile would be preferable if they are accurately identified. Another argument advanced against blending for stockpile is that it would be wasteful to the extent that future needs may not require such high-purity metal.

Views of aluminum consumers.—In event of war, one company would be required to produce metal of the following specifications: Drawn tubing, 52–S and 24–S; extruded shapes, 24–S, 75–S, and some 61–S; forgings, 14–S; soft alloy sheeting, 25–S, 35–S, 45–S, and 50–S. It was suggested that the wartime product mix be studied with the idea of establishing 2 specifications, 1 for products requiring high-purity metal and 1 for products requiring metal of lesser purity. However, such material must be accurately identified. This segment of the industry uses a maximum amount of scrap in producing higher quality alloys. The iron content is important and, without assurance as to what it is, the industry would have to insist on high-purity pig. A suggested purity was 99.4 minimum and 99.6 average.

Difficulty was reported in obtaining high-purity pig from primary producers who blame this situation on stockpile demands.

Prime-products producers believed that the immediate problem might best be solved by having two specifications (P–62–R and the specifications authorized by the exemptions that have been granted), with material produced under these identified and segregated in the stockpile. The greatest concern of this segment of the industry is to know the type of material it is receiving. An average purity of 99.6 with a minimum of 99.3 would meet most requirements of this segment of the industry, it was thought. A practical solution might be to lower purity to an average of 99.5 or 99.6. This procedure, if adopted, should be with the clear understanding that material for the stockpile should be produced in conformity with P–62–R when possible; but, for an interim period, producers who are unable to meet the high-purity specification may fill 100 percent of their stockpile commitments with material of the lesser purity, properly identified. It was also proposed that the situation be reviewed again prior to the expiration of any interim period designated.

As far as the smelting industry is concerned, the higher the purity of stockpile aluminum, the more material of lower grades this segment can make available to the industry, it was said. When shortages occur, there usually is a supply of low-grade materials that cannot be used for lack of high-grade metals with which to blend them.

An average purity of 99.5 will take care of most smelters' needs; 15 percent of the industry would be affected by the extremely higher grade.

Problems of storing and shipping stockpiled material.—Mr. Raymond Eberly (General Services Administration) commented on the problems of storing and shipping stockpiled material. He explained that material received in the stockpile is inventoried according to the specification under which it was produced and so identified when it is shipped. However, material marked 99.3 may be 99.375. The material is dispersed at points throughout the country, and a shipment may contain the grade but not the size of ingots wanted.

Concluding remarks by Mr. Harris.—There is no way of telling when and whether withdrawals will have to be made from the stockpile, Mr. Harris said. Furthermore, with changes and advances in technology occurring daily, it is difficult to determine what will be needed in the future. The advice presented by the industry will be most helpful in arriving at a solution to the stockpiling specification problem.

Mr. Harris also asked the conferees to study the estimated wartime product and to submit any further comments they wish.

REQUIREMENTS OF FUTURE STOCKPILE CONTRACTS

After the first of the year, Mr. Eberly explained, all contracts for aluminum stockpile purchases will contain a provision requiring that 50 percent of the pigs shipped be of 50-pound weights. The remaining 50 percent may be in weights up to 2,000 pounds.

The conferees felt that this was a rather stringent requirement, explaining that facilities for producing 50-pound pigs are limited. One conferee also explained that a review of sales records showed that, while small users are numerous, their consumption is exceedingly low. On the other hand, growth among the larger users suggests a conversion to larger pigs, and a higher supply in this category might be desirable.

Mr. Smith suggested that, to arrive at a better ratio, it might be desirable for producers to furnish information on the relative proportion of small and large pigs supplied to customers and also consumed in their own plants. The conferees indicated that such information would be submitted. Mr. Eberly stated that, if necessary, the 50-percent small pig requirement for the first quarter could be waived pending receipt of the information from the industry.

PRESS RELEASE

Mr. Smith informed the group that a press release covering the conference would be issued by the BDSA Public Information Office in accordance with the usual procedure in such matters.

BUSINESS AND DEFENSE SERVICES ADMINISTRATION

WASHINGTON, D. C.

MINUTES OF ALUMINUM INDUSTRY CONFERENCE, JANUARY 7, 1954

Industry members:

Lawrence M. Brile, Fairmont Aluminum Co., Fairmont, W. Va.
*Lewis M. Burt, Youngstown Manufacturing Co., Youngstown, Ohio
Carl H. Burton, Aluminum Smelters Research Institute, Chicago, Ill.
A. P. Cochran, Chochran Foil Co., Louisville, Ky.
S. D. DenUyl, Bohn Aluminum & Brass Corp., Detroit, Mich.
John W. Douglas, Republic Foil & Metal Mills, Inc., Danbury, Conn.
W. W. Doxey, T. E. Conklin Brass & Copper Co., Inc., New York, N. Y.
Alfred Fortier, Clingan & Fortier, Inc., San Francisco, Calif.
*H. A. Frutig, Aluminum & Magnesium Inc., Sandusky, Ohio.
George A. Ginsburg, United Smelting & Aluminum Co., New Haven, Conn.
Leo M. Harvey, Harvey Machine Co., Torrance, Calif.
F. J. Koegler, Doehler-Jarvis Corp., Toledo, Ohio
*David Laine, American Die Casting Institute, New York, N. Y.
Phillip Lemelman, Aluminum Extruders Council, Washington, D. C.
Louis Lippa, Apex Smelting Co., Chicago, Ill.
Arthur Lowery, Wyman-Gordon Co., Worcester, Mass.
*Frank R. Nichols, Nichols Wire & Aluminum Co., Davenport, Iowa
*Leon A. Pankratz, Quality Aluminum Casting Co., Waukesha, Wis.

*Not present.

*Howard Reasor, Metal Goods Corp., St. Louis, Mo.
David P. Reynolds, Reynolds Metals Co., Louisville, Ky.
D. A. Rhoades, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
*R. J. Roshirt, Aluminum Industries, Inc., Cincinnati, Ohio
R. W. Shaw, A. R. Purdy Co., Inc., Lyndhurst, N. J.
A. W. Simpson, Western Die Casting Co., Emeryville, Calif.
W. E. Sprackling, Anaconda Wire & Cable Co., Hastings-on-Hudson, N. Y..
Leonard Starr, Michael Flynn Manufacturing Co., Philadelphia, Pa.
J. M. Stone, Aluminum Smelting & Refining Co., Inc., Bedford, Ohio
*Robert P. Stranahan, Stranahan Foil Co., South Hackensack, N. J.
Lowell S. Thomas, General Smelting Co., Philadelphia, Pa.
Bruce Wall, National Association of Aluminum Distributors, Philadelphia, Pa.
Donald M. White, Aluminum Association, New York, N. Y.
D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
Harold C. Wilson, Revere Copper & Brass, Inc., New York, N. Y.
J. W. Wolfe, Non-Ferrous Founders' Society, Chicago, Ill.

Government attendance:

Department of Commerce:
Lothair Teetor, Assistant Secretary for Domestic Affairs.
Carl F. Oechsle, Deputy Assistant Secretary for Domestic Affairs.
Charles F. Honeywell, Administrator, Business and Defense Services Administration.
H. B. McCoy, Deputy Administrator, BDSA.
William E. Haines, Assistant Deputy Administrator, BDSA.
Harry L. Smith, Jr., Assistant Administrator, BDSA.
Todd W. Wright, Special Assistant to the Administrator, BDSA.
Paul Jordan, public information officer, BDSA.
Wm. C. Truppner, adviser on materials allocations and production controls, BDSA.
Everett G. Fahlman, Acting Director, Aluminum and Magnesium Division.
Clyde M. Adams, Aluminum and Magnesium Division.
A. A. Snow, Aluminum and Magnesium Division.
M. Bailkin, Aluminum and Magnesium Division.
W. Van R. Gilbert, Aluminum and Magnesium Division.
John H. Kilby, Bureau of Foreign Commerce.
Virginia Torosan, Bureau of Foreign Commerce.
Rose Robbins, minute writer.

Office of Defense Mobilization:
Ted E. Enter, Director of the Continuity of Industry Divisions.

MINUTES OF CONFERENCE WITH REPRESENTATIVES OF THE ALUMINUM INDUSTRY HELD AT DEPARTMENT OF COMMERCE, WASHINGTON, D. C., JANUARY 7, 1954

PURPOSE OF THE MEETING

A conference was held on January 7, 1954, with representatives of the aluminum industry to inform them of the activities of the Business and Defense Services Administration and the program of the Office of Defense Mobilization, and also to obtain their views on the following subjects: (1) Pre- and post-attack planning, (2) proposed DMS revisions, (3) collection and distribution of statistics, (4) effect of current export demand for aluminum scrap on domestic aluminum scrap supply, (5) expansion goals, (6) Department of Defense directive of November 17, 1953, regarding procedure for comparing long-range scarcities of certain materials for purposes of conservation, (7) marking of aluminum as proposed by the Department of Defense, (8) services which the Aluminum and Magensium Division of BDSA can perform in the best interests of the Aluminum Industry, and (9) other matters of interest to the industry.

Mr. Lothair Teetor (Assistant Secretary for Domestic Affairs, Department of Commerce) presided.

OPENING REMARKS

After welcoming the group, Mr. Teetor introduced his deputy, Mr. Carl F. Oechsle; the Administrator of BDSA, Mr. Charles F. Honeywell; and the Deputy Administrator of BDSA, Mr. H. B. McCoy. All are from the business world except Mr. McCoy, who is a longtime career official.

*Not present.

Mr. Teetor also announced the promotion of Mr. Harry L. Smith, Jr., from Director of the Aluminum and Magnesium Division to the post of Assistant Administrator of BDSA. Mr. Smith is also from industry and is serving on a "without compensation" (WOC) basis. Mr. Teetor expressed his appreciation to industry for supplying the Government with high-quality personnel on a WOC basis.

Recalling the practice followed by President Hoover of consulting regularly with industry groups on problems of mutual interest, Mr. Teetor explained that the Department of Commerce is now reviving this practice. In considering procedures, it was decided that the informal conference method would yield the best results since the conferees could be selected in accordance with the subjects on which advice is wanted.

Today's gathering, Mr. Teetor explained, is the first conference of this type for the aluminum industry. More are planned as the problems confronting the industry are unfolded. It is easy for Government officials, burdened with a mass of administrative problems, to become insulated from business problems, and the periodic exchange of views will do much to counteract such a situation, Mr. Teetor emphasized. He urged the industry to voice its views freely, not only on its direct problems but on such matters as taxation, labor legislation, distribution legislation, etc. Expressions from industry will help the Department to keep the road open for business, to foster free enterprise and free government. This administration, Mr. Teetor declared, is aware of the resourcefulness of business and has no wish to mastermind it.

Mr. Teetor then described the agencies in the Department of Commerce which fall under the cognizance of the Assistant Secretary for Domestic Affairs, such as the Bureau of the Census, Office of Business Economics, and the Business and Defense Services Administration. This latter agency is comprised of 25 industry divisions of which the Aluminum and Magnesium Division is one.

FUNCTIONS AND RESPONSIBILITIES OF BDSA

BDSA, which was established on October 1, 1953, Mr. Honeywell expalined, has the following three major functions: (1) Implementing the Defense Production Act with respect to material allocations to assure production of military and atomic energy programs; (2) Mobilization base planning, which encompasses such matters as advising the Office of Defense Mobilization on stockpiling, tax amortization, expansion goals, industry evaluation, plant protection facilities, pre- and post-attack planning, etc., and (3) services to business.

The 25 industry divisions of BDSA particpate most heavily in the aforementioned first two activities. Services to business stem mainly from BDSA's Office of Technical Services, Office of Distribution, Office of Field Service, and Office of Small Business. The Office of Small Business serves as the Department's liaison with the Small Business Administration.

Mr. Honeywell noted that, at its peak, NPA, which was BDSA's predecessor, had 4,700 employees. When the policy of decontrol was adopted by this administration, the activities were sharply contracted. This, of course, was accompanied by corresponding reductions in personnel and operating funds. Thus, when BDSA was established, it inherited but 350 people. An evaluation of BDSA's function now shows that some increase in staff may be necessary to effectively conduct its essential activities.

Major emphasis must, of necessity, be on defense and mobilization activities, Mr. Honeywell remarked, as BDSA's prime responsibility is to maintain a state of readiness should an emergency arise. Heavy reliance is being placed by BDSA on men like Mr. Smith and others furnished by industry to the Government on a WOC basis. The Department already has a roster of 1,200 such men, scattered throughout the United States, who have served in one capacity or another in the War Production Board, the National Production Authority, or BDSA. They are thought of as a reserve officers corps to be activated in case of an emergency. Mr. Honeywell also called the attention of the conferees to the fact that included in the informal conferences such as this are representatives of trade associations and trade publications. Such groups can be of invaluable assistance through the background material which their staffs maintain at all times.

COMMENTS BY ASSISTANT ADMINISTRATOR HARRY L. SMITH, JR.

Mr. Smith urged all conferees to participate in the matters listed for discussion. He also urged the conferees to register their reactions to this meeting by letter to Mr. Everett G. Fahlman, Acting Director, Aluminum and Magnesium Division, BDSA, whom he introduced to the group.

DISCUSSION OF PRE- AND POST-ATTACK PLANNING

Pointing out that, for the first time, this country faces the possibility of attack, Mr. McCoy emphasized BDSA's responsibilities with respect to mobilization readiness and the role which industry must play in pre- and postattack planning. If an attack should occur, large-scale destruction of industry facilities can be expected. It makes sense, Mr. McCoy believed, for both Government and industry to think and plan about measures to be taken in connection with the protection of the industrial system, particularly key facilities which would be so important in time of emergency. Protection of facilities is primarily industry's job, for it knows best what specific measures should be taken. The Government, for its part, has taken some steps to aid industry in this respect by providing incentives such as rapid tax amortization and by suggesting broad pre- and postattack planning measures which each segment of industry may gear to its own particular needs.

Judging from the experience of other industries who are already engaged in pre- and post-attack activities, Mr. McCoy believed that this industry would obtain the most effective results through the establishment of a task group comprised of men with a thorough knowledge of the industry's problems to consider the matter.

In response to questions, Mr. McCoy explained that ODM has collected a wealth of material on pre- and post-attack measures and is preparing a guidebook which will tie in with the work of BDSA, which is considered the focal point in Government for industry. BDSA will make this book available to industry.

Mr. McCoy also described the progress made by the steel industry and the chemical industry, both of which have established task groups on pre- and postattack planning.

Mr. McCoy called attention to the work of the Industry Evaluation Board with respect to pre- and post-attack planning. This board screens the industrial economy of the country with the purpose of indentifying from among the hundreds of thousands of products, services, and facilities those which are really key to defense mobilization, war production, and the supporting civilian economy. Industry is aware, he believed, that certain materials and products used extensively for military programs are produced in a limited number of places. The destruction of one or more of such facilities could seriously impede an important program. Ratings are assigned to such facilities and products by the IEB, and priority is given them in plant protection and resumption of production planning.

Mr. McCoy explained that, while ODM and BDSA are concerned only with defense-supporting and civilian aspects of the program, these agencies work closely with the military to achieve the highest measure of coordination.

After some discussion, the conferees unanimously advocated the formation of a task group on pre- and post-attack planning. Mr. Smith promised to consider the suggestion for appointing a member of the aluminum distribution industry to the group. The establishment of key points of distribution would be of utmost importance should producing and fabricating mills be disabled or destroyed by attack.

Expressions by several of the conferees brought out that many companies are confronted with the prbolem of dealing effectively with subversive employees who are on their rolls. The presence of such subversives constitutes a threat to the operation of the industry in an emergency, and no effective method has been devised for dealing with such elements. BDSA officials explained that this was a proper matter for consideration by the proposed task group on pre- and postattack planning.

Mr. Smith said that the industry would be notified when the task group has been appointed. In the meanwhile, he asked that suggestions for the group's consideration be forwarded to Mr. Fahlman.

PROPOSED DMS REVISIONS

Reporting on present plans with respect to the Defense Materials System, Mr. William C. Truppner (Adviser on Materials Allocations and Production Controls, BDSA) explained that, at present, the Nation, though not fighting a war, is spending about $40 billion a year for maintenance of the Armed Forces and production of new weapons and equipment. The money, rather, is being spent to deter potential aggressors or to repel an aggression should one occur.

Experience gained during past wars makes it clear that the Nation's major military strength lies not in the quantities of weapons available at war's outset but rather in the ability of the Nation to convert its peacetime industry to the

production of weapons after war begins. Such conversion can be accomplished through Government imposition of a production control system, Mr. Truppner explained.

A control system, according to present thinking, should be geared to any 1 of the following 3 possible situations:

(1) If the cold war should continue without a resumption of hostilities, a controls system should provide for a streamlined operation from which 90 percent of the paperwork has been removed.

(2) If a situation similar to the Korean emergency should arise, then it would be necessary to provide a framework under which military production could be expanded after mobilization has been stepped up.

(3) In case of all-out war, the controls system should be so conceived as to be capable of immediate effectuation.

Thus, the proposed revisions to DMS call for (1) a stripping out of allotment paper through military prime and subcontractors. The procedure proposed will require prime contractors to maintain certain allotment accounts, similar to those kept at present but omitting the paperwork associated with passing down allotments to manufacturers of small bits and pieces. Instead, such manufacturers will be allowed to procure controlled materials on a self-authorization basis. For the aluminum industry this means a streamlined operation starting at the Department of Defense and ending with the aluminum user who places the order. (2) Continuation of set-asides for military and atomic-energy programs. (3) Maintaining, on a standby basis, a framework which will permit the Government to rapidly reactivate a system of quantitative allotments should a situation requiring such action develop.

In summing up his comments, Mr. Truppner pointed out that the proposed revisions recognize the present relatively confortable materials situation as well as the wisdom of providing a mechanism assuring rapid action by the Government when needed to protect military and atomic-energy programs.

GATHERING OF AND DISTRIBUTION OF STATISTICS

Explaining that every effort is being made to keep reporting to a minimum, Mr. Fahlman pointed out that certain statistics must be gathered to get a fair picture of the aluminum situation.

A questionnaire is being sent to the forgings segment of the industry to ascertain the types of forgings which were produced during 1953. Latest figures available concern 1952, when reporting was on a monthly basis. Commencing with 1953, reports will be on an annual basis.

Mr. Fahlman also revealed that a letter was sent to the forging industry last December asking for information on current plant capacity (the latest reports on file being for 1952) so that appropriate steps can be taken in case of emergency.

In the past, the industry had been submitting two forms—M–24B and NPA–122, Mr. Fahlman continued. It is now proposed to combine these into one form designated as BDSAF–122, copies of which were distributed to the conferees. The information requested is substantially the same as on the old forms but in line with the policy of minimizing the reporting burden, distributor information has been eliminated.

Mr. Fahlman also called attention to the fact that section III of the form is limited to inventories of purchased scrap, primary pig and ingot unremelted, and secondary ingot unremelted. Furthermore, reports on unfilled orders have been eliminated from the report.

Revisions to the form represent the consensus of a conference attended by statisticians from companies in the various segments of the industry, Mr. Fahlman explained.

Mr. Fahlman invited the conferees to submit comments and criticisms on the proposed form.

One conferee questioned the need for the information called for by section III. Mr. Smith explained why the information was needed and also pointed out that the matter had been thoroughly discussed with another representative of the conferee's company who had concurred in the inclusion of this section on a trial basis.

PROGRAM OF THE OFFICE OF DEFENSE MOBILIZATION

Colonel Ted Enter of the Office of Defense Mobilization was presented to the conference and he outlined that agency's defense mobilization program. ODM's responsibility is in the area of civil defense. It has established a staff dealing with continuity of Government under attack and one dealing with continuity of production under attack.

Policies and programs are being developed, Colonel Enter revealed, which will aid industry, in event of attack, to overcome the damage that might be suffered and to assure continuity of production of weapons and munitions so vital at the outset of hostilities.

In a recent statement, the President pointed out that it must be concluded that Russia has the capability of atomic attack and that this capability will increase with the passage of time. It is also known that a 100-percent defense system is nonexistent. The Joint Chiefs of Staff recently have stated that about 70 percent of an attacking force could penetrate the radar system.

Should this country be attacked, industrial facilities would become prime targets. Thus, for the first time in history, American industry may have to face the problem of producing under attack if war should come, Colonel Enter emphasized. That poses many major problems, some of which only industry itself can answer.

Extensive studies have been made of measures taken during World War II with respect to the protection of facilities and to their restoration after attack. While much knowledge has been gained, very little of it is applicable to the aluminum industry as such plants were comparatively unharmed. Damage inflicted by allied forces involved mainly powerplants and transportation facilities, Colonel Enter pointed out.

In describing the damage to German facilities, Colonel Enter drew a comparison between the effort expended and the results obtained from the use of conventional and atomic weapons. For example, in a 3-day raid on Hamburg, Germany, 2,100 four-engine aircraft were used to carry 7,200 tons of bombs; 75,000 people were reported killed or missing. The atomic bomb dropped on Nagasaki represented the equivalent of 20,000 tons of TNT and required only one B–29 for its delivery. The attack resulted in 100,000 people killed or missing and destruction of 5 square miles of the city. The newer atomic and hydrogen weapons are considerably more powerful than those used on Japan, and planning must be adjusted to meet the greater threat.

Should war come, the country must expect and be prepared for small, unannounced, low raids, especially in coastal areas. Large raids, too, must be expected, and while in such instances enemy losses may be heavy, damage to targets, probably both military and industrial, would probably be considerable.

Colonel Enter displayed a series of charts which had been prepared on pre- and postattack planning. One chart showed the high concentration of industrial facilities and workers. Colonel Enter pointed out that such concentration is an invitation to attack, and that A-bombs in sufficient number to strike crippling blows are expected to be in enemy stockpiles in the near future.

Thus, in future wars, industry will be in the front lines with industrial executives becoming industrial strategists. Decisions which industry must make in its preparation for attack do not differ greatly from daily business decisions. They would pertain to such matters as the worth of a protective measure in terms of continued production; whether the cost of the project would justify the benefits that would be obtained in terms of continued plant operation, employee safety and morale, etc.

In the aluminum industry, although metal refineries are reasonably well dispersed throughout the country, their size makes them targets. In case of a direct hit, Colonel Enter doubted that much could be done. However, in case of blast damage or a fairly good-sized miss, considerable restoration could be effected.

The aluminum industry, Colonel Enter believed, would also be concerned with storage of raw materials, transportation, and power facilities.

Studies indicate that planning can be segregated into the following three basic groups; certain measures can be taken immediately and others later:

Group I: Preventive measures—to reduce industrial attack damage;

Group II: Supply measures—to offset nonpreventable attack damage; and

Group III: Reconstruction measures—to speed up the resumption of vital production._

Colonel Enter stressed the importance to the industry of providing alternate power-generating facilities, maintaining a reserve of the types of equipment which would accelerate resumption of production, adopting measures for the protection of moving equipment. Assessment of measures required to be taken and the adoption of a program to effectuate them may mean the difference between high aluminum production or an inordinate amount of down time.

Colonel Enter also believed that the stockpiling of aluminum ingots is worthy of serious consideration.

Many matters with which industry would concern itself in pre- and postattack planning are substantially the same as those encompassed in natural-disaster plans.

In emphasizing the importance of the aluminum industry to the national defense, Colonel Enter pointed out that, in the last few years alone, the capital investment has amounted to $1.3 billion of which about $1 billion is subject to rapid tax amortization.

He believed that the conferees had acted wisely in recommending the establishment of a task group on pre- and postattack planning. A task group could isolate industry problems which require Government aid. The extent to which aid can be given can be determined only when the problems are known.

At the conclusion of his talk, Colonel Enter showed a Department of Defense film portraying the A-bombing of Hiroshima and Nagasaki. The conferees also received copies of a pamphlet entitled, "Suggested Post-Attack Production Measures," which has been published by the Office of Defense Mobilization.

EFFECT OF CURRENT EXPORT DEMAND FOR ALUMINUM SCRAP ON DOMESTIC ALUMINUM SCRAP SUPPLY

Mr. Smith recalled the events in the aluminum scrap market which led to a meeting on November 6, 1953, between a group of secondary aluminum smelters and officials of the Commerce Department and ODM. It was brought out at this meeting that the psychological effect produced by the unqualified open-ending of exports in late September was a withholding of stocks from domestic smelters in anticipation of higher prices. Since the meeting, Mr. Smith reported, the aluminum scrap market has become less turbulent and, at present, prices are declining. He also revealed that earlier opinions that actual exports would be considerably less than the tonnage licensed have been confirmed by actual export figures for October and November 1953. In fact, the present rate of export shipments is only about 15 percent of the tonnage licensed, he added.

Comments from the conferees indicated satisfaction with the manner in which aluminum scrap exports are being handled. A representative of the aluminum smelters segment of the industry gave high praise to BFC and BDSA for their effective handling of this emergency situation.

In discussing foreign requirements for 1954, Mr. Kilby explained that, on the basis of available information, U. S. exports of aluminum scrap may possibly range from 12,000 to 15,000 tons. He inquired whether exports of such quantities would endanger domestic supplies. Conferees, however, were unable to answer this question because of the many factors involved.

To safeguard the market from undue disruption, BFC was urged to continue its conservative licensing policy.

Both Mr. Kilby and Mr. Smith welcomed information from the industry regarding any change that might occur with respect to supply and market conditions.

EXPANSION GOALS

In the Aluminum and Magnesium Division's area of responsibility, the following four goals are officially open, Mr. Smith announced. He explained that the Division must recommend approval or disapproval of applications for tax amortization certificates:

91. Aluminum tubing, welded
99. Forgings, heavy aluminum, aircraft
134. Aluminum sheet, tapered
177A and B. Aluminum sheet and plate and heat treating facilities

The first three items mentioned above are dollar goals and, with the exception of welded aluminum tubing, they represent essentially the supplementary equipment which may be necessary in connection with the basic equipment, such as large presses, tapered rolling mills, etc., which may be required for the manufacture of forgings, tapered sheet, etc., for military use. The possibilities of welded tubing for military requirements are still uncertain and considerable further experimental work may be necessary before the practicability of this process is evaluated for proposed military application.

In view of these circumstances, Mr. Smith remarked, the Aluminum and Magnesium Division recommended on December 17 that the first three goals listed should be more or less held in abeyance until their need is supported by further study.

The fourth goal consists of two parts: 177A for sheet and plate producing facilities and 177B for sheet heat-treating facilities. Part A has been certified up to very close to the amount of the goal. For part B, however, there is still a substantial amount of uncertified tonnage.

The entire problem of uncompleted goals, additional goals, etc., including expansion of blooming mill capacity, extrusion facilities, casting facilities, etc., is tied in with the restudy of mobilization requirements for aluminum in an all-out war which is being conducted now by the Department of Defense. The results of this study will figure largely in determining the need for additional capacity.

Mr. Smith also revealed that the Aluminum and Magnesium Division, in collaboration with ODM, has made a study on fabricating capacities under all-out mobilization requirements. The results of the study are very enlightening, Mr. Smith remarked, adding that it is as accurate as possible in the face of uncertainties of the actual specifications which would be required in an allout war. The figures contained in this study are contingent on the restudy of requirements which is now being made by the Department of Defense, the group was told.

A conferee asked what the study revealed regarding capacity for allout mobilization. Mr. Smith replied that capacity was determined for each individual product, based on the best product mix. It was found, in some cases, that capacity is far in excess of what might be needed. In others, more capacity may be needed. Mr. Smith explained, however, that all these findings may have to be modified after the Department of Defense completes its requirements study. Mr. Smith also stated that a decision on castings facilities will be made after the Department of Defense study has been completed. On the basis of present figures with respect to military requirements, Mr. Fahlman doubted that facilities for the production of sand castings will be adequate.

Answering another question with respect to Canadian participation, Mr. Smith indicated that the matter is still under study. The conferees strongly urged that consideration be given to the expansion of American facilities before any long-term agreements are made with Canadian producers. After a rather lengthy discussion of the matter, Mr. Smith explained that the Government shares the industry's view regarding expansion of United States facilities, provided it can be done on an economical basis.

One conferee believed that it is essential to keep Canada in the picture from a defense standpoint.

A conferee stated that independent fabricators wish to go on record as favoring expansion of facilities in their segment as well as in those integrated operations which could qualify under an expansion program. The conferee also indicated that with the rapid growth of integrated fabricators there is a need for expanding basic supply sources.

Mr. Smith again assured the group that additional or modified expansion goals will be announced when the Department of Defense studies have been completed.

DEPARTMENT OF DEFENSE DIRECTIVE

Copies of a Department of Defense directive dated November 17, 1953, on the subject of comparison of long-range scarcity of certain materials were distributed to the conferees. In explaining the directive, Mr. Smith remarked that this is the first attempt by the Government to determine relative scarcity. Mr. Smith pointed out that in the comparisons of metals, taking into account scarcity only, aluminum is in a very satisfactory position.

MARKING OF ALUMINUM AS PROPOSED BY DEPARTMENT OF DEFENSE

Recently, Mr. Smith recalled, the industry received from the Department of Defense a draft of a proposed marking procedure with a request for comments and recommendations to be submitted by November 18, 1953. The Aluminum Association has also been asked for comments and recommendations, and two of its committee considering the matter hope to formulate recommendations within a month or six weeks. The letter accompanying the draft asked whether the marking of metals as proposed would fit industry's needs and whether industry favored such marking as a national marking standard.

Of the 179 replies received, 132 favored the proposed marking procedure, and 47 opposed them. Of the 47 negative votes, however, 28 were steel producers.

Generally speaking, Mr. Smith believed, the Defense Department's proposal conforms substantially to the procedure presently followed in the industry.

Mr. Smith invited industry members to communicate with Mr. Gerard J. Marks, Standardization Division, Office of the Assistant Secretary of Defense for Supply and Logistics, Pentagon, Washington, D. C.

ADVICE ON SERVICES WHICH THE ALUMINUM AND MAGNESIUM DIVISION OF BDSA CAN PERFORM IN THE BEST INTERESTS OF THE INDUSTRY

In response to Mr. Smith's request for suggestions on the type of business services which the industry would like from BDSA, conferees indicated that they have had little opportunity to consider the matter. They believed, however, that as problems arise BDSA will consider them sympathetically.

Both Mr. Honeywell and Mr. Smith urged the conferees to consider the matter further and to submit in writing recommendations on the types of services they would like to receive. Only by knowing the industry's wishes can BDSA's actions be most effective, Mr. Honeywell explained.

VIEWPOINTS ON NATIONAL POLICIES

As the representatives of industry in Government, officials of the Commerce Department frequently appear before legislative committees on legislation which may affect business directly and indirectly, Mr. Teetor explained. Such officials can do a more effective job if they are adequately armed with industry's views. He hoped that the conferees could explore subjects such as the following at future meetings:

Excise taxes.—Mr. Teetor understood that the Treasury Department is not yet in a position to make strong recommendations on excise taxes to the Ways and Means Committee. He believed that industry still has time to register its views on the subject.

Mr. TEETOR reported that the National Association of Manufacturers has recommended uniform manufacturers' excise taxes on all end products except food. The recommendation of the United States Chamber of Commerce, while not as firm, leans in the same direction. The Committee on Economic Development is reportedly opposed to any excise tax, as are retailers.

The Department is anxious to obtain this industry's views on the subject, Mr. Teetor said.

Mr. Teetor believed that the continuance of excise taxes could be considered as a foregone conclusion. He explained that the question to be resolved concerns the type of tax that will be imposed. He urged the industry, in considering the matter, to take a broad-gage view. Factors such as the uniformity of the tax, the products to be affected, and the level at which it should be imposed, that is, manufacturing, distributor, or retail, should be taken into account.

Answering a question, Mr. Teetor stated that revenue obtained from excise taxes, including liquor, tobacco, etc., amounts to about $10.5 billion.

A conferee referred to an article written on the subject of excise taxes by a Mr. Lawrence Harvey which he believed was worthy of consideration.

The Renegotiation Act.—Many conferees urged repeal of the Renegotiation Act. They pointed out that reports required under it are burdensome. Many problems resulting from the act could be minimized or avoided if the military services took more care in awarding contracts and negotiating immediately on a cost basis. They complained of a lack of uniform treatment. Other conferees reported satisfactory experiences with the Renegotiation Board. One conferee likened the Renegotiation Act to another type of excess profits tax law.

Mr. Teetor noted that some manufacturers—especially where production of a new product is involved and costs are unknown—have reportedly fared very well in their dealings with the Renegotiation Board.

It was also brought out that renegotiation does not apply to all industry. For example, it does not apply to the chemical industry or to standard fabricated products. Some conferees believed, however, that it does apply to smelters' ingots.

Depreciation.—The conferees were gratified by the remarks of the President in his state of the Union message regarding the depreciation problem as it affects small business. The President's recommendation that small business be allowed to depreciate two-thirds of the cost of equipment over a 5-year period will be of great help to the small fabricator. He will be relieved of the necessity of applying for certificates of necessity.

Asked whether rapid tax amortization would apply in the rebuilding of obsolete aluminum plants, Mr. Smith explained that at present such assistance is available only for plants qualifying under the open expansion goals. Whether there will be more possibilities for tax benefits depends on overall mobilization requirements and the product mixes involved.

Mr. Teetor anticipated that provision for some sort of accelerated depreciation formula will be made in either the new tax regulations or the tax bill. Prevailing

opinion is that it is highly reasonable for greater depreciation to be allowable during the first few years of the life of a building or a machine. The straight-line method of depreciation appears to be most favored.

Tariff and import situation.—The conferees expressed great concern over the importation of increasing quantities of fabricated aluminum products such as sheet, plate, bars, rod, and tubing selling at far below domestic prices. They doubted that costs to foreign manufacturers warranted such underpricing and expressed the belief that foreign producers were selling below cost to capture foreign markets. American industry, which operates under legal restrictions as to wages and hours, trade practices, etc., cannot meet this type of competition.

It was also brought out that an aluminum plant is being built in Norway and financed with American money. Norway is reported to have made an agreement with Russia to exchange the output of this plant for Russian grain.

Another complaint was that no imports could be obtained when domestic supplies were scarce. Recognizing the importance of United States participation in world trade, the conferees urged the establishment of a program requiring foreign producers to participate on a continuing basis. It was also pointed out that countries assisted by ECA are the heaviest exporters.

Answering a question, Mr. McCoy explained that the President will make recommendations to Congress on tariffs after the Randall Commission has submitted its report. The report and recommendations on minerals, which is being prepared by the Commission in collaboration with the Mineral Resources Committee, is due on March 31, 1954.

The President's recommendations will be made in connection with the extension of the Trade Agreements Act, and they will propose procedures for handling tariffs. Congress, of course, may not accept the administration's recommendation.

A conferee stated that the Aluminum Association has submitted a brief to the Randall Commission calling attention to the self-sufficiency of the aluminum industry, the country's dependence on it in wartime, and the importance of protecting it from foreign competition.

Explaining that he is a member of the Mineral Resources Committee, Mr. Teetor asked if a tariff problem exists with respect to bauxite. The conferees explained that, in order to conserve domestic bauxite deposits as a stockpile, imports of this material should be encouraged.

The present duty on bauxite is 50 cents per ton, the conferees explained, and urged that this be eliminated to encourage the flow of bauxite imports. Removal of this tariff will not affect labor, it was said.

Labor legislation.—Answering a question regarding the position of the Department of Commerce on the Taft-Hartley Act, Mr. Teetor explained that the Department's General Counsel, Mr. Stephen F. Dunn, and his staff are very active in this respect, and their accomplishments have benefited employers greatly.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

ALUMINUM TASK GROUP MEETING, STOCKPILE SPECIFICATION P–62–R, MARCH 30, 1954

Raymond G. Boyd, Director, Aluminum and Magnesium Division, BDSA
Edwin A. Harris, Chief, Light Metals Division, ODM, Government presiding officers

Industry representatives present:
C. F. Nagel, Jr., Aluminum Company of America, Pittsburgh, Pa.
H. C. McCord, Aluminum Company of America, Washington, D. C.
Maxwell Caskie, Reynolds Metals Co., Washington, D. C.
Thomas L. Fritzlen, Reynolds Metals Co., Richmond, Va.
Murray Clark, Reynolds Metals Co., Richmond, Va.
William J. Edmunds, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Ward C. Humphreys, Kaiser Aluminum & Chemical Corp., Washington, D. C.

Government representatives present:
Department of Commerce:
Business and Defense Services Administration:
Harry L. Smith, Jr., Assistant Administrator.
Clyde M. Adams, Aluminum and Magnesium Division.
Charles R. Hersum, industry advisory committee staff.
M. P. Ford, summary writer.
Office of Defense Mobilization:
Jack H. Connelly, procurement and storage standards and directives staff.
Paul A. Cooley, procurement and storage standards and directives staff.
Other agencies:
Raymond Eberly, Emergency Procurement Service, GSA.
Dr. T. C. May, Office of Assistant Secretary of Defense (S. and L.).
D. D. Blue, Chief, Light Metals Branch, Bureau of Mines.

OPENING REMARKS

R. G. Boyd, Director, Aluminum-Magnesium Division, opened the meeting explaining that this task group was constituted as a working group of the members of the Aluminum Technical Conference held on November 12, 1953, under the sponsorship of the Business and Defense Services Administration for the purpose of obtaining for the Office of Defense Mobilization industry's advice as to the desirability of modifying stockpile specification P–62–R. Recommendations submitted as a result of that Conference indicated that several differences still exist within the industry and the purpose of this meeting was to attempt to reconcile those differences. Mr. Boyd introduced the Government officials present and the industry members of the task group, then turned the meeting over to Mr. Edwin A. Harris, Chief, Light Metals Division, Office of Materials, ODM.

Mr. Harris thanked the members of the task group for their attendance and called attention to a newspaper article on stockpile policy with regard to the development of a new concept for long-term objectives. Mr. Harris feels this article is significant of the fact that the present administration does not intend to minimize stockpiling. He was not prepared to comment as to how this might affect the aluminum stockpile objectives, but stated that the aluminum expansion program has this year started to meet the requirements of the military, direct and indirect, civilian and stockpile, and show a surplus. The amount of total primary production going in stockpile at the present time is larger than ever true in the past. Twenty percent of total primary production goes in stockpile and specifications require that this be only top quality metal. Mr. Harris was of the opinion that this accentuates the problem to be discussed.

DISCUSSION OF STOCKPILE SPECIFICATION P–62–R

Mr. Harris explained that as a result of their request at the Aluminum Conference for further recommendations from the prime producers they had received 3 suggestions, 2 of which were in close accord and the third not too far divergent. He pointed out that these suggestions were to be considered on the basis of the following two premises:

(1) that the stockpile is being prepared to produce a wartime product mix in just about the proportions that were outlined at the Technical Conference; and,

(2) that the percentage of secondary metal (scrap) that would be included in a wartime metal supply would be assumed to be 20 percent of total supply.

Again these two premises the following recommendations from the prime producers were submitted for discussion:

(1) The required wartime product mix could be satisfactorily met with a stockpile having an average aluminum content of 99.5 percent.

(2) The required wartime product mix could be satisfactorily met with a stockpile having an average aluminum content of 99.6 percent, this average to be obtained at a point starting in the 3d or 4th quarter of this year, and until that time continue to accept 99.5 percent average with 99.3 percent minimum.

(3) To meet these requirements the stockpile might be divided into 2 parts, with 70 percent of the total to be in metal of the present P–62–R specification, and the 30 percent balance to be in a new specification (desig-

nated P–63) which might have a maximum iron plus silicon content of 0.50 percent and a minimum aluminum content of 99.5 percent.

Mr. Harris stated that these three recommendations had been presented to the Interdepartmental Light Metals Committee and they had requested further counsel from industry. Mr. Harris further stated that the Committee's chief comment is that in the recommendation for split specifications (No. 3 above) there appears to be an assumption that, by keeping purity up to levels as recommended, it would be possible to use a fairly large percentage of scrap; and that, in time of war, would be a desirable thing. However, Mr. Harris thought the scrap percentage on which this purity recommendation is presently based is in excess of the 20 percent figure for secondary metal which has been set up in ODM's total supply column to meet full mobilization. Therefore, he thought that the purity recommended might slide the other way if geared to a 20 percent secondary factor, and requested industry's recommendations for content under those conditions.

One producer was of the opinion that the 20 percent figure was probably a little low. He thought consideration should be given to the fact that aircraft companies have been doing a great deal more machining of heavy sections than 2 years ago. Another thought that the percentage of scrap would run roughly 25 percent of the total—secondary plus primary.

Mr. Harris pointed out there was a lot of extra machining now, but this may be sharply reduced with completion of the heavy press program, and stated that since it is difficult to come up with any figure that will stay fixed for any length of time, it was felt that 20 percent was a reasonable place to start.

Mr. Smith commented that it is possible that in alloys other than 24S and 75S one might use 40 or 50 percent scrap, whereas if you narrow the problem to 24S or 75S one would use 25 percent or less.

Mr. Harris inquired if the percentage of secondary metal were pegged at 20 percent would the producers feel that requirements of purity of stockpile would have to be changed. One industry man was of the opinion that it would have an effect. He pointed out that as a result of the war a high was reached last year where average iron content of market scrap was 0.49 percent and ranged up to 0.80 percent.

In the discussion of a dual specification one producer thought that the proposal offered possibilities since a 70–30 percent ratio is what they would anticipate shipping against a 99.6 percent average. This producer expressed belief that to meet any average, shipments must be on the plus side. (This view was confirmed and emphasized by other producers.) A check of February shipments made by this producer against the 99.5 percent average revealed an average of 99.62 percent. It was his thought that the stockpile can represent no better than the average purity of industry's production without putting an undue strain on the aluminum economy. It was his opinion that the proposal of 70–30 would have nearly the same end result as establishing a 99.6 percent average purity in stockpile of the size presently contemplated.

Another producer stated that they had at the last conference taken the position that a full range of product mix could be made with a range of grades from 99.3 percent minimum up, with 99.5 percent average. Recent checks on their shipments to the stockpile revealed they have not shipped metal which could be used to make 75S and therefore he feels a dual specification is the solution.

It was their thought that about 30 percent of the proposed product mix could be used for making strong alloys such as 75S and 24S and even though there is a high percentage of scrap, that is only 30 percent of the total discussed. They would prefer to have premium metal available with which to sweeten the scrap. He feels P–62–R is cream of nonpremium metal. Premium metal of 99.8 aluminum carries a premium price of one-half cent over lower purity, and he doesn't think it fair for the Government to insist that suppliers take off the cream of P–62–R to furnish metal to stockpile. He would propose a lower average bulk specification and higher average lesser specification for the purpose of sweetening scrap. He suggested that 20 percent premium metal (99.8 minimum) be stockpiled and paid for by Government at premium prices and 80 percent at a purity lower than P–62–R (99.5 average). The average of metal in stockpile other than that part of it which is premium metal should be 99.5 percent.

One of the producers stated that they are presently shipping premium metal under Government contracts to stockpile and obtaining premium prices for it.

Mr. Eberly declared he was unaware that any of the producers were shipping premium metal, and upon being questioned, advised that GSA could set up a contract calling for premium metal at premium prices if known in advance.

Dr. May stated he was under the impression that when P–62–R went into effect, 99.6 was classified as premium metal and that there had been no price change. He was advised that it had since been rescinded and 99.8 percent is quality on pig metal calling for a price of one-half cent premium.

Mr. Harris then inquired as to whether the producers would, in any given quarter that GSA purchase contract were prepared on the 20–80 proposal, supply both grades concurrently.

One producer stated that depending on conditions at the time and the amount of call they would on basis of 2d quarter experience be able to begin shipping with 3d quarter 20 percent premium and 80 percent at 99.5 percent average. He warned that there might be a strong possibility of some 99 percent getting in stockpile now however.

Another was doubtful that the quantity required under the 20–80 ratio would give the final wartime product mix needed or whether this system would produce very many pounds of 99.8 percent minimum metal. He feels that stockpile should contain enough high-purity metal to permit making the high-purity alloys using scrap. He is doubtful that the system would work and suggested a ratio of 70 percent high purity with 30 percent remainder of lesser purity.

The third producer was of the opinion that a two-way proposal would be even more unfair than adhering to P–62–R. The proposal of 20 percent premium metal with the rest 80 percent minimum purity would increase the premium metal required. He also felt the market situation would interfere with 80–20.

Mr. Harris then pointed out that his concern in setting up a dual specification was that it is found to be relatively easy to get lower purity metal, but the premium metal keeps getting pushed into the future. Mr. Harris asked at this point if it would not be material to discuss the inherent problems in the P–62–R specification before pursuing further the discussion as to the percentage of stockpile to be of such specification purity. He pointed out industry's comments from past discussions that the 0.25 maximum limitation on iron precluded some 99.6-purity metal from otherwise meeting P–62–R specifications. He suggested that an adjustment in maximum iron to some point between 0.25 and 0.30 might not be too great a problem. Alternatively, he requested industry comment on a recommendation made by one producer that the iron and silicon be combined in the specification to a limiting total of 0.4 maximum.

This latter proposal met with the approval of the producers; one withholding reservation, and it was recommended that P–62–R specification be revised to call for 99.6 aluminum content with an iron plus silicon combined of 0.4.

Mr. Harris then questioned the producers as to what percentage of the stockpile they would recommend to be of such revised P–62–R specification. Two producers recommended a 60–40 ratio and the third, 70–30.

Mr. Harris then recapped the situation as follows: The three producers believe that something between 60–70 percent of total stockpile should be of a revised P–62–R specification with combined iron and silicon content increased to 0.4 maximum, the balance of the stockpile (40–30 percent) to be a lesser specification. There is a slight difference in the thoughts of two companies in that one feels the latter percentage should be of 99.3 minimum (no average) and the other, 99.6 average, 99.3 minimum.

The three producers effected a compromise on the ratio of 65–35 and agreed to recommend as follows that the total stockpile should be of 99.6 percent average purity, with 99.3 percent minimum; of the total, 65 percent should conform to a revised P–62–R specification of 99.6 percent minimum aluminum with maximum iron and silicon content of 0.4, and total other impurities a maximum of 0.1 percent.

Mr. Eberly questioned as to what would happen to the percentage of iron and silicon in shipping 99.3 percent metal, and was advised it would work up to 0.7 percent combined.

Dr. May asked for industry's comments on a single specification of 99.5 percent minimum with control on the iron and silicon content, rather than an average of 99.6 percent where grades can slide as low as 99.3 percent. He pointed out that the 99.5 percent minimum was the recommendation submitted by two of the producers at the time P–62–R was adopted.

It was industry's comment that this would not be as workable as the solution they had agreed to for the reason that a substantial proportion of production today is of 99.3 percent and 99.4 percent, and has a definite wartime use. Under his suggested 99.5 percent minimum, these grades would be definitely barred from the stockpile and they would consider it a waste of resources to supply plants that needed only 99.3 percent aluminum with 99.5 percent minimum. Industry further commented that in building a small stockpile it is vital that it be as pure as possible, but the larger stockpile now contemplated should be more representative of the overall total production.

REQUIREMENTS OF STOCKPILE CONTRACTS

Mr. Eberly requested the producers' comments and recommendations as to whether contracts for aluminum stockpile purchases should contain the proviso requiring that 50 percent of the pigs shipped should be of 50-pound weights. He pointed out that this was no particular requirement of the stockpile and that industry should determine the question according to their needs.

It was the concensus of the producers that 30 percent of shipments should be of 50-pound weights, with the remaining percentage in the larger sizes which were the general trend of industry.

Stockpile storage problem.—The question of how metal was being stored in stockpile entered the discussion at various times. Mr. Eberly advised that shipments are received in carloads made up of lots of various grades and these are presently stored by the grade. He further advised that GSA has been requested to change to storage by lots.

Industry was of the opinion that in time of call they would requisition in terms of needs and that would be by grade, and recommended continuation of storage practices which would permit shipment by grade. Mr. Harris stated that this problem was under separate study by the Government.

CLOSING REMARKS

Mr. Boyd brought the meeting to a close thanking the group for their advice and recommendations. He pointed out, however, that the Government must reserve its freedom of action with respect to adopting these recommendations and if need be, they would be requested to meet again for further consideration of any problems in this connection.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION
WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM SMELTERS INDUSTRY ADVISORY COMMITTEE, APRIL 29, 1954

Clyde M. Adams, Aluminum and Magnesium Division, Government presiding officer

Committee members (all present at meeting):

H. A. Frutig, Aluminum & Magnesium, Inc., Sandusky, Ohio.
J. M. Stone, Aluminum Smelting & Refining Co., Bedford, Ohio.
Herman F. Bittner, The American Metal Co., Ltd., New York, N. Y.
A. Nichamin, Federated Metals Division, American Smelting & Refining Co., Detroit, Mich.
Louis Lippa, Apex Smelting Co., Chicago, Ill.
Philip Scheibner, Associated Metals Co., of Calif., Oakland, Calif.
Fred Berman, Berman Bros. Iron & Metal Co., Birmingham, Ala.
Lowell S. Thomas, General Smelting Co., Philadelphia, Pa.
Samuel Greenfield, Samuel Greenfield Co., Inc., Buffalo, N. Y.
Edward S. Christiansen, Industrial Smelting Corp., Miami, Fla.
Herman J. Galamba, Sonken-Galamba Corp., Kansas City, Kans.
E. A. Bergman, U. S. Reduction Co., East Chicago, Ind.

Government representatives present:
Department of Commerce:
Business and Defense Services Administration:
H. B. McCoy, Acting Administrator.
W. E. Haines, Assistant Deputy Administrator.
R. G. Boyd, Acting Assistant Administrator.
George Elliman, Adviser on Foreign Activities.
William M. Martin, adviser on salvage and scrap.
William C. Truppner, adviser on industrial mobilization controls.
Richard Blaisdell, Office of Public Information.
Charles R. Hersum, Industry Advisory Committee staff.
Rose Robbins, summary writer.
Aluminum and Magnesium Division:
A. A. Snow, Assistant Director.
Morris Bailkin.
E. G. Fahlman.
Bureau of Foreign Commerce:
John H. Kilby, Office of Export Supply.
Virginia Torosan, Office of Export Supply.
George Carter, Office of Export Supply.
Other agencies:
Edwin A. Harris, Office of Materials, ODM.
Dr. Timothy C. May, Office of Assistant Secretary of Defense (Supply and Logistics).
Ted L. Sweet, Foreign Operations Administration.
John W. Gracek, Small Business Administration.

PURPOSE OF THE MEETING

The Aluminum Smelters Industry Advisory Committee met on April 29, 1954, to consider: (1) Organization and functions of the Business and Defense Services Administration, (2) the defense materials system, (3) the industrial defense program, and (4) to discuss the current excess of aluminum scrap exports over imports and its probable effect on the domestic economy.

Mr. Clyde M. Adams (Aluminum and Magnesium Division, BDSA) was the Government presiding officer.

OPENING REMARKS

After welcoming the committee members, Mr. Adams commented briefly on developments since the last meeting of the committee on November 13, 1952, calling particular attention to the decontrol actions on civilian production which had been taken by this administration, the dissolution of the National Production Authority and the establishment of its successor, the Business and Defense Services Administration. He then presented BDSA Deputy Administrator H. B. McCoy, who spoke on the organization and functions of the new agency.

ORGANIZATION AND FUNCTIONS OF BDSA

The Business and Defense Services Administration or BDSA as it is commonly referred to, consists of an Administrator, a Deputy Administrator, 3 Assistant Administrators, several staff offices, and 25 industry divisions representing substantially every basic industry in the country, Mr. McCoy explained. Its functions, as its name suggests, pertain to defense production and business services. The defense functions represent an aggregation of activities which must be pursued under provisions of the Defense Production Act and under delegations of authority from the Office of Defense Mobilization; the business service functions deal with fostering and promoting trade and commerce and are permanent long-range duties of the Department of Commerce. Generally speaking, BDSA's functions fall into three major categories, namely: Defense production, mobilization preparedness, and business services.

Defense production.—Aside from assuring proper supplies of materials for the production of military and atomic energy programs, this activity also involves the development of flexible procedures to meet current defense production problems as well as those that might have to be dealt with in any future emergency that might arise. Even with the present limited activity in this area, BDSA, during the first 3 months of this year, was required to issue approximately 3,000 special actions to keep military production on schedule.

Mobilization preparedness.—Mr. McCoy distinguished mobilization preparedness activities from current defense production activities by pointing out the long-range nature of the former. In the National Security Act of 1947, which authorized creation of the Department of Defense, the President was empowered to carry on long-range planning activities for industrial and national security, Mr. McCoy explained. Under the reorganization plan executed last year, that function was lodged in the Office of Defense Mobilization, which is now a part of the Executive Office of the President. ODM, in turn, has delegated a large portion of this responsibility to the Secretary of Commerce, who has redelegated it to BDSA. These activities deal mostly with industrial preparedness and include: Developing estimates of defense supporting and civilian requirements and the facilities needed to supply those requirements under conditions of stepped-up or all-out mobilization, making recommendations on such matters as stockpiling, expansion goals, applications for tax amortization, industry evaluation, pre- and post-attack planning, etc. Mr. McCoy indicated that the Aluminum and Magnesium Division at some future date may call a meeting of the industry to discuss mobilization preparedness.

Business services.—The business services activities of BDSA are derived from the statutory function of the Department of Commerce of promoting, fostering, and developing commerce and industry in the United States. As interpreted by the Secretary, this function encompasses such matters as placing the viewpoint of business and industry before other agencies of Government whose actions may affect them. Mr. McCoy emphasized that the intention of the Department of Commerce is not to interfere with the normal functions of other agencies, but when another Government agency has responsibilities, which in some way, may affect the business community, the Secretary strongly believes that the views of industry should be considered by such agencies in the formulation of policy. BDSA is most anxious to be helpful either by presenting industry's views to the proper Government agencies or by arranging for industry representatives to talk with the proper people in such Government agencies.

Another business services function concerns the disposal of Government surpluses, especially of the military agencies. By working closely with the Assistant Secretary of Defense for Supply and Logistics, BDSA hopes that procedures may be evolved by which surpluses may be disposed with a minimum dislocation to existing trade as well as a good return to the Government.

Another project pertains to getting the Government out of competition with private industry. Here again, the relationship which has been established with the Department of Defense is expected to bring good results.

The matter of gathering statistics has also been closely scrutinized. The Department does not intend to duplicate statistics that are already being compiled by industry. It will concentrate only on statistics that are needed for national purposes.

MODIFICATION OF THE DEFENSE MATERIALS SYSTEM

Simplification has been accomplished of the Defense Materials System (in operation since July 1, 1953) by the issuance of a set of revised DMS regulations which were made effective on April 1, 1954, Mr. William C. Truppner (adviser on industrial mobilization controls, BDSA) explained. This mechanism provides for the channeling of materials to the current defense programs, as well as for an orderly and rapid expansion of military and Atomic Energy Commission production and construction in the event of a new emergency.

Under this new system, military contractors are assured of their actual material requirements to meet defense production schedules—but no more. Should circumstances require an increase in defense production, the DMS, as revised, will assure that the maximum possible share of critical materials would remain for essential civilian use.

In his address to the Congress on the state of the Union, Mr. Truppner recalled, President Eisenhower said, "The ability to convert swiftly from partial to all-out mobilization is imperative to our security." To accomplish such rapid conversion, Mr. Truppner pointed out, necessitates a knowledge of materials requirements for military production, together with a related set of production and material control procedures.

The new DMS is essentially a preparedness measure. It provides the basis for keeping in readiness machinery to be put into immediate, effective operation in the initial stages of all-out mobilization. Experience in past emergencies has shown that from 9 months to a year were needed to establish a controls system

on an efficient operating basis. It is highly unlikely that such a period of time will be available for preparation should a state of emergency occur in the future.

Fundamentally, the DMS requires only prime military and AEC contractors and a few of their suppliers of major components to maintain records of material allotments to cover 85 percent of the total material required for military and atomic energy production and construction, thus eliminating the maintenance of allotment accounting records for thousands of subcontractors. All subcontractors below the level of prime are authorized to use automatic preference ratings or self-authorization authority on their purchase orders.

In summary, the defense materials system was revised so as to make it adaptable to meet any one of four possible contingencies:

1. *Continuation of the cold war with no increase in military production.*—During a period in which the threat of armed conflict continues but a reasonably comfortable supply of controlled materials exists, it is essential that the DMS procedures be stripped to the barest minimum consistent with retention of a controls framework for war preparedness. This has been accomplished by substantially reducing the materials bookkeeping required of principal contractors, as indicated above, by providing for a simple identification of military and AEC orders for all subcontractors below the level of the prime. This in effect reduces the bookkeeping chore required of military and AEC suppliers to one of very reasonable proportion.

2. *Armed conflict on a limited scale.*—Should the United States engage in conflict short of all-out war, an increase in military and atomic energy requirements can be anticipated. The maintenance of the allotment flow from the ODM to the Defense Department and the Atomic Energy Commission, and from these agencies to the prime contractors would insure that the total amount of materials actually purchased by military suppliers could be approximately limited to their actual needs. By this means, the residual remaining for civilian use would be maximized so as to avoid to the greatest possible degree the necessity for extending controls over the entire civilian economy.

3. *All-out war with conventional type weapons.*—Limiting the allotment pass-through and materials bookkeeping to the prime contractor and a few selected suppliers places a substantially greater responsibility for meeting military production schedules on the prime contractor. By making it possible for the prime contractor and many of his subcontractors to operate through a system of simple defense identification, military suppliers could rely much more heavily on their normal peacetime materials purchasing and production scheduling procedures. During the first year after M-Day, it is anticipated that this would prove to be a much more effective tool for achieving scheduled military goals than the systems employed in past emergencies.

4. *All-out war with bomb damage inflicted on continental United States.*—In the event of bomb damage to units in the chain of military subcontractors, the flexibility provided by the revised defense materials system would make it possible for the military contractors to substitute new suppliers for any bombed-out links in their defense supply chain. The establishment of a simple identification system for military subcontractors will provide as much flexibility to the prime contractor in this eventuality as he possesses under emergency conditions during peacetime.

THE INDUSTRIAL DEFENSE PROGRAM

The term "industrial defense" as interpreted by the Office of Defense Mobilization encompasses not only materials controls and allocation problems but also problems involved in assuring continuity of production should the country be subjected to enemy attack, Mr. William E. Haines (Assistant Deputy Administrator, BDSA) explained. Matters which must be seriously considered are: plant protection, protection against espionage and sabotage, providing alternate sources of supply, continuity of management, safety of personnel, and many other things. Mr. Haines referred to a pamphlet entitled "Suggested Post-Attack Production Measures," copies of which had been distributed to the committee members, containing measures which can be undertaken by individual companies without large outlays of funds.

Mr. Haines also referred to the film called Operation Ivy showing the first H-bomb explosion. The wide range of destruction resulting from this detonation has already been exceeded by subsequent tests, making the need for protective measures even more important. Although recognizing the overwhelming destructiveness of atomic weapons, Mr. Haines expressed the belief that through an

intensive program of Government-industry cooperation, the effects could be reduced to a considerable degree. He cited the success achieved through such efforts in connection with the administration of the controlled-materials plan during World War II.

Industrial defense is primarily a voluntary program on the part of industry, Mr. Haines emphasized, and he predicted that, should war come to continental United States, the principal problem of the country will be continuity of production rather than the allocation of materials. In considering all factors, BDSA, through a working group assigned to this project, has endeavored to formulate a business-like program in terms of what can be done at the industry level. Practically all of BDSA's Industry Divisions have appointed task groups to survey their respective industries and to suggest measures that can be taken first on an industrywide basis and then on an individual company level, as there are certain decisions which only management can make. Mr. Haines described studies made by the chemical industry, the photographic film industry, and others.

He further explained that this matter was being brought to the industry's attention so that it could decide the extent of pre- and post-attack study which it should undertake.

ALUMINUM SCRAP EXPORTS AND IMPORTS

Background of the situation.—Mr. John H. Kilby (Director, Materials Division, Office of Export Supply, BFC) reviewed the aluminum scrap export situation, as follows. Prior to about a year ago, aluminum and aluminum scrap were closely limited by export quotas and other devices. As shortages began to disappear, however, it was decided to remove short supply limitations on exports of aluminum and aluminum scrap, retaining the licensing requirement to assure only that the material did not move to unfriendly destinations. Another reason in support of this decision was the fact that, historically, very little tonnage of scrap moved in export; a very heavy foreign demand was not anticipated.

During the summer and fall following the removal of short supply limitations, exports of scrap were very small. Beginning in November, however, export tonnages of scrap began to rise sharply and imports began to decline. This development resulted in reports by industry members to both the BDSA and the Bureau of Foreign Commerce that the supply of scrap was becoming tighter and tighter and that the industry was experiencing difficulty in purchasing sufficient scrap for its requirements. Several formal pleas were submitted requesting the reimposition of short-supply export controls. This combination of circumstances has led to the calling of this meeting so that the views of all concerned could be registered.

Explaining the statutory authority for export controls on the part of the Government, Mr. Kilby pointed out that the purpose of the statute is fairly well defined; it limits the use of export controls only to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand; to further the foreign policy of the United States and to aid in fulfilling its international responsibilities; and to exercise the necessary vigilance over exports from the standpoint of their significance to the national security.

Another unique feature of the current aluminum scrap situation, Mr. Kilby remarked, is the fact that surpluses of the prime metal involved, aluminum, exist in most of the countries of the world, including the United States. Thus, in considering the advisability of reimposing controls, the Government must consider many other factors besides the aluminum scrap situation.

In outlining the procedure followed in determining export policy, Mr. Kilby explained that here again the statutory language is clear and provides that the Secretary of Commerce shall seek information and advice from the several executive departments and agencies concerned with those aspects of United States domestic and foreign policies and operations having an important bearing on exports. The legislation further provides for consultation with industry. In line with this statutory mandate, an Advisory Committee on Export Policy has been created, whose function is to assist the Secretary in formulating export policy. This Committee consists of representatives from the Office of Defense Mobilization, Departments of Defense, Interior, State, Agriculture, Treasury, and others that are interested in the export problem. Therefore, the ultimate decision represents the composite thinking and views of all prime agencies of the Government with respect to exports.

To further assist the Committee in its discussion, Mr. Adams distributed copies of a tabulation entitled "Aluminum Statistics 1946–March 1954" showing scrap consumption by type of scrap and by type of consumer; estimated recovery from scrap; imports and exports of scrap; net shipments of mill products and castings; domestic primary production; imports of metal and crude alloys, etc. With the exception of the data shown for January and February, all the other information on the chart has been published in one form or another, Mr. Adams said.

Discussion.—The following facts pointing to the shortage of aluminum scrap were presented by a committee member with the support of the other members:

1. Average monthly scrap receipts by ASRI members during 1953 were 32.5 million pounds. Average monthly scrap receipts for the first quarter of 1954 amounted to only 26 million pounds, which indicates a 20-percent decline in purchases as compared to the same period last year.

2. Despite lower scrap receipts, prices are higher than in 1953. Price, it was explained, was mentioned as a measure of shortage.

3. In the first quarter of 1954, Aluminum Smelters Research Institute members booked orders exceeded scrap purchases by about 24 million pounds.

4. Also in the first quarter of 1954, total ASRI inventories dropped 15 percent or 8.5 million pounds, indicating that ingot inventories were being used to make up the deficiency in scrap purchases.

5. There is no evidence that all scrap available in 1953 did not move to consumption points. In other words, nothing indicates an increase in dealer pipelines. Reports from dealers indicate no change in this situation up to the present time. At present price levels, it was pointed out, dealers are not inclined to speculate beyond normal pipeline amounts.

6. Another way of measuring scrap supplies is by reported shipments of wrought products, which are the source of new scrap. On the basis of current evidence, 20 percent less new scrap can be expected in 1954. Resorting to the device of measuring the future by the past and allowing for a 15 percent decline in smelter business would, by itself, indicate a scrap shortage of about 57 million pounds.

7. February exports amounted to about 5.7 million pounds. Projected to an annual basis, this would amount to about 68.4 million pounds. Compared with monthly figures of previous years, this represents an inordinate increase, to wit: 1953, 8.8 million pounds; 1952, 2 million pounds; 1951, 2.9 million pounds; and 1950, 1.6 million pounds. Fear was expressed that if present regulations are not tightened, exports might continue to mount.

8. Aluminum scrap imports for 1953 amounted to 53.4 million pounds, including heavy imports from Germany (which will not recur) to help an acute situation. There is nothing in the world situation today to indicate that sizable imports may be expected during 1954, except possibly from Canada. Therefore, even if H. R. 8155 (H. R. 8833), allowing duty-free import of aluminum scrap, is passed, imports cannot be viewed optimistically.

9. Another indication of the shortage of aluminum scrap is the report that prime producers have experienced difficulty in purchasing scrap during the past 30 days.

10. The weight of evidence provided by the aforementioned yardsticks points only in one direction—down. Scrap is the only raw material of the smelting industry which is greatly concerned about the supply-demand imbalance. It was emphasized that the industry is not seeking Government assistance in the solution of its day-to-day competitive problems. On the other hand, it was pointed out, if there is any merit strategically or economically in having a healthy robust smelting industry, then there is merit in exploring the export situation, which is the one place where the Government can help.

11. Viewing the overall aluminum metal situation, it seems apparent that the United States is not self-sufficient in this respect as evidenced by aluminum pig imports amounting to 57 million pounds in January of this year. A further indication of insufficiency is the contract for 600,000 tons of aluminum with a Canadian company plus contracts with others. All this despite Government-encouraged expansions in this country.

12. During the early months of this year, with wrought product shipments low, domestic production was ample for the domestic industry. The difference between production and orders was consumed largely by the stockpile which also consumed considerable imported pig, plus, also, in effect, all scrap purchased by primary producers. If the strategic stockpile is considered necessary in the quantities in evidence and also from a strategic point of view, it appears inconsistent to export scrap which must be replaced pound for pound with metal which could otherwise go to stockpile.

13. In the interest of remaining healthy and robest, if it is for the good of the country, the industry is disturbed that it should have been singled out to compete with the world for scrap. Italy, for example, has an ad valorem duty of 28 plus 3 percent tax, and it is selling primary pig at 26.3 cents per pound. Germany's tax is 12 percent and its primary pig is priced at 24.7 cents per pound. Japan has a 10 percent tax with a selling price of 29.63 cents per pound. The United States price for pig, however, is only 20 cents a pound. If a worldwide equality of ingot prices existed with respect to subsidies, tariffs, etc., a case for free trade might exist. But when these countries can pay prices such as 15½ cents f. a. s. for cast and sheet; 18 cents for low copper clippings, 17 cents for mixed clippings, and from 12½ to 14½ cents for high zinc borings, smelters in coastal areas, especially, are unable to compete for scrap by virtue of the ceiling on domestic ingot prices predicated on a 20-cent pig price as established by the primary producers. The net effect of this inequitable competition is to drain from the country the materials which smelters traditionally use to blend with higher grade, higher priced items as a means of properly pricing smelters ingot below primary producers prices. Also, the net effect will be a higher cost to the American public for the products made from this metal.

14. Although smelters will probably be able to supply current needs of their customers during the summer lull, any sustained pickup in business will undoubtedly bring with it many difficulties, especially if exports continue at the present rate or increase. The fact that smelters do not supply ingot, does not mean that ingot users will lack for ingot. It merely means that fewer smelters would survive.

Several committee members reported that the heavy increases in aluminum scrap exports with accompanying higher prices charged for scrap, when it can be obtained, has caused not only sharp reductions in company profits but also losses. The industry is making a great effort to serve the hundreds of small foundries that have been accustomed to buying their ingot at the normal discount under the price of primary pig, but it cannot sustain losses indefinitely. The hardship has been most acute for smelters located in coastal areas, some of which are reported as operating at a rate of about one-third of normal. With the departure of winter shipping problems, smelters located in inland areas are also beginning to feel the impact of the scrap exports.

The stepped-up scrap purchases by primary producers, about 20 million pounds per month, was also noted. Encouragement for such heavy consumption was attributed to the stockpile arrangement which enables the primary producers to operate their potlines at capacity.

Attention was also called to the importance of the aluminum smelting industry in time of war as well as in time of peace. The industry will be destroyed, however, if it must continue to be squeezed by the arbitrary price ceiling imposed by the price of primary aluminum on the one hand, and the lack of scrap on the other. A further factor contributing to the scrap shortage is the decline in scrap generation which has resulted from contracting defense requirements and design changes. This, coupled with the disappearance of raw material imports, will cause a decline of about 15 to 20 percent, in the scrap supply. The members reiterated that with knowledge that a cumulative shortage is threatening the very existence of this industry, steps must be taken immediately to assure that this does not happen.

The drop in inventories since last September was also noted, and it was pointed out that scanty inventories lower the operating efficiency of plants and raise costs. Furthermore, the foundries that purchase from smelters are all small-business organizations; they purchase their requirements as needed because they have not the financial ability for carrying inventories. Thus, to serve these customers, smelters must carry substantial inventories.

Although scrap has been mostly exported to Italy and Germany, a recent requirement of 11,000 tons has been indicated by Japan. Should this requirement be met from United States supplies, the impact would be disastrous. Except for Canada and the United States, scrap supplies worldwide have been depleted, so that scrap exported can never be recovered by imports.

Pointing again to the strategic nature of aluminum and the lack of self-sufficiency in this country to produce its aluminum requirements, the committee members questioned the propriety of substantially limitless exports.

A committee member, whose plant is located in the South, reported that whereas, before, scrap generated in that area normally moved to northern markets, now at least 80 percent of the supply is moving in the export market.

Rather than permit the export of scrap, the export of aluminum should be encouraged to reduce the surpluses, an industry member contended. He attributed the large foreign scrap purchases to the lower labor costs prevailing in

those countries. Thus, while providing employment for foreign labor, the unrestricted export of aluminum scrap is depriving American labor of employment.

The heavy reliance which the Government places on purchases of primary aluminum from Canada may be greatly misplaced if, in a future emergency, Canadian plants are bombed out. With no smelting industry to depend on, the country would indeed be confronted with a serious situation. The smelting industry has served the country well in time of emergency and the Government has a duty to aid it in combating present conditions.

Mr. Adams compared the present world situation on aluminum scrap with the conditions existing during the years 1948 and 1950, when huge quantities of aluminum scrap were imported. Present conditions are just opposite those existing then and that, he believed, is why the price factor on both primary aluminum and scrap is a vital factor in this discussion. A committee member commented that the difference between those circumstances and the present is the supply of virgin production. The smelting industry, he added, has never shrunk from paying high prices for scrap when it was not confronted with the impediment of a ceiling resulting from the price of primary aluminum. If it had no price ceiling to contend with, the industry would not be seeking aid in the form of export controls.

After further discussion, the committee unamimously recommended that exports of aluminum scrap be restricted, members advocating that monthly exports should not exceed 500 tons in any one month and others advocating that maximum amounts be established by the Government in the light of all circumstances. Mr. Everett Fahlman (consultant, Aluminum and Magnesium Division, BDSA) suggested that, in the interest of small foundries, exports be kept to a minimum if scrap prices rise by 1 or 1½ cents. Even with existing prices, foundries are losing business to other competing metals.

Answering a question, Mr. Adams explained that the committee's comments and recommendations will be taken under advisement along with the views and recommendations of the aluminum scrap dealers and exporters who will meet in a few days. These will be considered by the Bureau of Foreign Commerce and others in the Department. Mr. Kilby believed that a decision may be reached in the matter in about 10 days. He cautioned, however, that the reimposition of short supply controls would not invalidate outstanding licenses. All such outstanding licenses will become much more effective than before, he commented.

Expecting an opposing viewpoint from the exporters, a committee member urged that due consideration be given to the impact on the thousands of foundries from limitless aluminum scrap exports. Only a handful of exporters would be affected by a decision to impose short-supply controls.

In response to a question, Mr. Kilby stated that the Bureau of Foreign Commerce can curtail the issuance of licenses pending a decision. In fact, issuance of licenses was slowed down as soon as the February exports were noted.

H. R. 8833

Committee members called attention to H. R. 8833 (H. R. 8155), introduced at the request of the industry by Representative Church of Illinois. This bill provides for the suspension of tariffs on imports of aluminum scrap and, if passed, the industry hoped that foreign countries possessing scrap will be induced to export to the United States. The committee urged that both BDSA and the Department of Commerce support this measure. Mr. Adams reported that both already have gone on record in connection with this proposed legislation.

SCRAP LICENSES ISSUED

Because of the somewhat uncertain supply situation existing during the past few months, licenses for the export of scrap have been issued for 90 days rather than the usual 6-month period, Mr. Kilby explained. This is the minimum time considered necessary to complete an export transaction. The 90-day validity period was selected with the idea of giving the Government the greatest flexibility should the situation worsen.

During the first quarter of 1954, the total tonnage licensed amounted to 16,000 tons. Licenses issued during January have now expired, although some may have been extended. The level of requests for licenses has been fairly constant. On the basis of past experience, if a short supply quota of 1,500 tons a quarter is established, about 1,000 to 1,200 tons will probably actually be exported, Mr. Kilby remarked.

Mr. Kilby also informed the group that arrangements have been made with the Bureau of Census to speed up the compilation of export figures. All the April figures are expected to be compiled by May 15.

OTHER DISCUSSION

Kitchen utensils, fishing rods, and foil produced in foreign countries which import American aluminum scrap are being offered for sale in the United States, several committee members said. Some of the countries exporting these items permit the importation of American aluminum scrap on a low-tariff or duty-free basis. Yet the same countries impose a high tariff on imported aluminum ingot.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION
WASHINGTON, D. C.

SPECIAL CONFERENCE OF ALUMINUM SCRAP DEALERS AND EXPORTERS, MAY 4, 1954

Industry representatives present:
- Alper Goldberg, Mars Metal Co., San Francisco, Calif.
- Ernest Lorch, Metal Reclaiming Co., Brooklyn, N. Y.
- Norman Ruderman, Kopelove Iron & Metal Co., Dayton, Ohio.
- Lewis Gordon, Samuel Gordon & Sons, Inc., Chelsea, Mass.
- J. R. Sternberg, Consolidated Hide & Metal Co., Asheville, N. C.
- Harry Gumpert, Brandeis, Goldschmidt & Co., New York, N. Y.
- Max Bluestone, Bluestone Metal Co., Pittsburgh, Pa.
- T. F. Carberry, Metal Traders Inc., New York, N. Y.
- E. P. Sawyer, H. F. Pollock & Co., Inc., New York, N. Y.
- Joseph Roth, Roth Brothers Metal Co., Inc., Syracuse, N. Y.
- Max M. Teisch, A. Strass & Company, Inc., New York, N. Y.

Government representatives present:
- Department of Commerce:
  - Business and Defense Services Administration:
    - H. B. McCoy, Acting Administrator.
    - W. E. Haines, Assistant Deputy Administrator.
    - R. G. Boyd, Acting Assistant Administrator.
    - George Elliman, Adviser on Foreign Activities.
    - William M. Martin, Adviser on Salvage and Scrap.
    - Charles R. Hersum, Industry Advisory Committee Staff.
    - Maria Rotondo, Summary Writer.
    - Aluminum and Magnesium Division:
      - Clyde M. Adams, Acting Director—Government presiding officer.
      - A. A. Snow, Assistant Director.
      - Morris Bailkin.
  - Bureau of Foreign Commerce:
    - John H. Kilby, Director, Materials Division, Office of Export Supply.
    - Rauer H. Meyer, Deputy Director, Materials Division.
    - Virginia Torosan, Chief, Nonferrous Section, Materials Division.
    - George Carter, Nonferrous Section.
- Other Agencies:
  - Edwin A. Harris, Chief, Light Metals Division, Office of Materials—ODM.
  - Dr. Timothy C. May, Office of Assistant Secretary of Defense (S. & L.).
  - Ted L. Sweet, Chief of Bureau, Mines and Minerals, Foreign Operations Administration.

PURPOSE OF THE MEETING

A special conference of aluminum scrap dealers and exporters was called on May 4, 1954, to consider the following: (1) Business and defense services administration; (2) aluminum scrap exports and imports; and (3) summary of conclusions and recommendations.

Mr. Clyde M. Adams (Acting Director, Aluminum and Magnesium Division, BDSA) was the Government presiding officer.

INTRODUCTORY REMARKS

Mr. William M. Martin (Adviser on Secondary Material, BDSA) opened the meeting and referred to the rules applicable to meetings with groups of industry representatives governing its conduct. Special conferences, under the rules, may be held for the purpose of considering or obtaining advice or information on some specialized or technical problem.

Mr. Adams introduced Mr. R. G. Boyd (Acting Assistant Administrator, BDSA) who briefly reviewed the organization and functions of VDSA.

BUSINESS AND DEFENSE SERVICES ADMINISTRATION

In behalf of Mr. Charles F. Honeywell (Administrator, BDSA) Mr. Boyd welcomed the conferees. He explained that one of the principal concepts of BDSA is to render a service to business. To this end, some of the key personnel in the agency are executives recruited from business and industry to serve for 6-month terms on a without compensation, rotation basis.

BDSA was established on October 1, 1953, after many consultations with business leaders and Government officials, and is composed of an Administrator, a Deputy Administrator who is a long-time career employee, 3 Assistant Administrators, and 25 Industry Divisions representing nearly 500 various industries. These Divisions serve as a liaison between Government and industry in their day-to-day activities. Division Directors, most of whom are on loan from industry, bring industry viewpoints to Government and in turn take back to their representative industries Government views on industry matters.

In addition to reactivating the services to business concept established by Mr. Herbert Hoover when he was the Secretary of Commerce in the 1920's, BDSA retained the residual functions of NPA in connection with the defense program and industrial preparedness measures, These activities include: devising a simplified controlled materials plan or defense materials system as it is known, meeting stockpile objectives, approving applications for tax amortization certificates, implementing established expansion goals, and assuring a continuity of essential production in the event of attack.

BDSA also provides business and industry an opportunity to present their views to Government on current affairs and pending legislation affecting them, including labor and tax laws, foreign trade, Government activities in competition with business, and the collection and compilation of statistical data useful to both industry and Government. It is hoped that these services can be expanded with the least possible expenditure and that industry will consider BDSA a sounding board for its views and a focal point for Government assistance.

ALUMINUM SCRAP EXPORTS AND IMPORTS

Background.—Mr. John H. Kilby (Director, Materials Division, Office of Export Supply, Bureau of Foreign Commerce) summarized events leading to the convening of aluminum scrap dealers and exporters.

When basic materials and primary forms became in relatively easy supply about a year ago, both domestic and export controls on aluminum in various forms and types were removed. Only a few necessary controls were retained on scrap exports, which had not been substantial prior to the Korean build-up, and which were more or less confined to European markets. Aluminum scrap was retained on the so-called positive list of exports requiring licenses as a security measure to prevent the material from moving freely to areas unfriendly to the United States.

Last summer there was very little export trade in aluminum scrap, however, in the fall exports began to rise and imports to fall simultaneously at a rapid rate with applications for export licenses amounting to about 10 percent of United States consumption. Soon thereafter domestic consuming industries began to make strong representations of a short supply of aluminum scrap, culminating in a recommendation by the Aluminum Smelters Industry Advisory Committee on April 29, 1954, that the Government reimpose short supply export restrictions.

This meeting was called to obtain information and advice from the suppliers and exporters of aluminum scrap in order that a sound and impartial decision may be reached by the Department of Commerce, Mr. Kilby informed the conferees. For their information, he outlined the procedure followed in determining export policy, explaining that the Department will consult with the various segments of the industry and conduct an intensive study embracing the views of the several executive departments and agencies concerned with United States foreign and domestic affairs. The Secretary of Commerce is enjoined by statutory

regulations to seek the information and advice of those agencies as well as from industry, the ultimate decision depending upon conclusions reached after a study of all the basic facts and viewpoints.

Polling the conferees for views and recommendations of this segment of the industry, Mr. Adams assured them that their statements would not be attributed to them by name.

Is there a domestic short supply of scrap.—Contrary to reports of aluminum scrap shortages by ingot makers, scrap dealers and exporters maintained that there is no critical shortage of material at present. They unanimously opposed any restrictions to free trade other than those required as security measures. Aluminum supplies and dealer stocks are ample, the defense program is in no jeopardy, they said, and the imposition of export restrictions on scrap would aggravate the existing critical condition in the aluminum scrap market.

Ingot makers' complaints that aluminum scrap is scarce and that their business is being injured by exports of this material came as a surprise to the scrap dealers. Smelters claimed need for protection arises from a desire for exorbitant profits and a refusal to pay what scrap dealers consider the actual value of scrap. As a result, export dealers have been driven to foreign markets.

Packing for export and shipping to foreign countries is an expensive and burdensome process, it was pointed out, and scrap brokers have only recently resorted to exports on a large scale because domestic smelters dropped their quotations by approximately 3½ cents a pound. Moreover, smelters are competing among themselves on bids for scrap, one broker reported.

Substantiating the argument that there is no short supply of aluminum scrap, another dealer maintained that an even better supply should be available because quantities of dormant material have accumulated over the last year.

When the price of scrap dropped to 10½ cents a pound in the late fall of 1953, dealers could no longer make it worthwhile for the collectors to handle aluminum nor for the housewife to save pots and pans for as little as 1 cent a pound. Normally, scrap collectors prefer to handle copper or other nonferrous scrap which is less bulky and cheaper to handle than aluminum which is usually collected along with other scrap or for a price incentive.

By raising the price for scrap to 12 cents or 13 cents a pound so that the collector can get at least 10½ cents, allowing the difference for packing and shipping costs and profit margin, aluminum smelters and other consumers would provide an incentive for collectors and dealers to supply both the domestic and export market. Scrap collectors dependent on aluminum for their livelihood will be put out of business should the domestic price of scrap continue to go down and restrictions be imposed on exports.

A dealer from the Middle West reported that exporting is not economically feasible from that area. Whereas smelters in the area have maintained a price level for scrap acceptable to brokers, they prefer borings and turnings from a profit standpoint to higher grades of scrap. The dealer resorted to exporting when prices offered by smelters declined to uneconomic levels and only after cast, sheet, and clips were first offered to regular smelter customers who turned down the scrap.

Relationship of steel and aluminum scrap.—Attributing the slowdown of aluminum scrap flow to accumulations of scrap iron and steel, several conferees stressed the close tie-in between ferrous and nonferrous scrap collections. Motor vehicle crankcases, as a main source of aluminum scrap, for example, are not being used to generate reuse scrap if they are piled up in automobile wreckage which is not moving into scrap markets because of low prices.

Foreign demand.—Exports during the last 6 months to three principal buyers (Japan, Italy, and West Germany) have declined in the past 2 months for a number of reasons, a conferee stated. Faced with serious financial problems, Japan is no longer in the market for aluminum scrap. Italy was importing in limited quantities and most exporters were disinclined to ship to that country because of numerous unjustified claims. And West Germany can import new ingot at less cost than scrap since import duties on ingot are only 4 percent higher than on scrap. United States exporters, on the other hand, cannot offer scrap at prices low enough to attract the German buyer because of packing and shipping costs. As a result, domestic consumers can expect a readjustment of the market in their favor, provided that free enterprise is given an opportunity to operate under the natural law of supply and demand.

A typical example of what can happen in a free economy was the shift in the market for red brass mill brass from foreign to domestic purchasers. During the last 6 weeks, exports of brass scrap have diminished because domestic con-

sumers, starting with brass mills, began to pay prices in competition with exporters. Aluminum scrap exports, is was predicted, will be reduced likewise.

Emphasizing that the aluminum scrap situation is only a temporary one, and that the exclusion of foreign customers from our export trade would have reciprocal repercussions in foreign countries who would turn to other sources of supply, conferees approved the present administration's policy of a free economy and free trade.

To clarify the extent of aluminum scrap exports, Mr. Kilby read the following figures compiled by the Bureau of Foreign Commerce:

Period	Exports (exclusive of Canada)	Country of destination
1953:	*Short tons*	
June	64	33, Japan; 28, United Kingdom; 3, other.
July	177	155, Japan; 22, Italy.
August	205	197, Japan; 8, Philippines.
September	423	393, Japan; 30, Haiti.
October	800	669, Japan; 25, West Germany; 72, Italy; 34, United Kingdom.
November	983	636, Japan; 192, West Germany; 83, Netherlands; 72, Italy.
December	1,689	689, West Germany; 577, Japan; 377, Italy; 46, Netherlands.
12 months total	4,460	2,660, Japan; 906, West Germany; 543, Italy; 156, United Kingdom; 129, Netherlands; 55, Haiti; 8, Philippines; 3, other.
1954:		
January	1,645	741, West Germany; 470, Japan; 415, Italy; 16, Haiti; 3, Cuba.
February	2,851	1,208, West Germany; 884, Italy; 644, Japan; 70, Netherlands; 45, Haiti.
March (preliminary)	2,369	All foreign destinations (except Canada).

Conferees explained that these figures represent shipments of old orders and that June shipments will reflect the drop in export demand. The dock strike in New York City also delayed shipments of old orders, however, no new orders are presently booked for export, despite reports that applications for export licenses have been received by Commerce at substantial rates through March.

Exports versus imports.—Citing export-import figures published by the Department of Commerce, an exporter pointed out that imports of aluminum scrap in 1953, totaling approximately 53 million pounds, were about 4½ times total exports of 9 million pounds. This ratio has remained constant since 1939, and exports exceeded imports for the first time in January and February of 1954. At the same time, only 10 percent of total United States aluminum scrap consumption is being exported and there is no danger of the ratio becoming distorted, in view of collectors' statements with regard to quantities of dormant scrap, if the price is right. The fact that imports of scrap have dropped to almost a third the quantities imported in the last quarter of 1953 would indicate that the domestic demand has been met.

Discussion of case presented by the aluminum smelters industry.—Pointing out the wide range of geographic areas represented at the conference, aluminum scrap dealers and exporters refuted the argument that a shortage of aluminum scrap exists by virtue of export activities. By way of illustration, they reported instances of exporting done by secondary smelters themselves.

While scrap inventories have turned over at a faster rate during the last 3 months, this was accounted for by a higher intake and a lower net price. Large inventories cannot be maintained by scrap dealers because aluminum scrap is expensive to store. It is generated only to the extent that an individual dealer can afford to pay for the services of auto wreckers, scavengers, and collectors. With the present lull in the iron and steel scrap market, automobiles are not borken up, and with the current low price for scrapped pistons, the aluminum in them is not salvaged and is chewed up at the foundries along with the motor block. Weather conditions also affect the generation of scrap—more scrap coming out in the spring and summer months.

With regard to a report of the Aluminum Smelters Research Institute for the first quarter of 1954 that booked orders exceed scrap purchases by 24 million pounds, conferees believed that the decline in scrap purchases by the aluminum smelters industry is due to price cutting within the industry, use of inventories, stretchout of deliveries, lack of new orders, and decreased demand from the steel

industry. Normally, the steel industry demand for deoxidized grades of aluminum from smelters constitues a part of their business. Smelters are also losing out to exporters on scrap business by offering lower prices. Whereas exporters are currently paying 15 cents a pound for the collection of old aluminum scrap, secondary smelters, having used up their inventories, are hoping to replenish them at a depressed price of 10½ cents a pound.

Questions of internal competitive conditions, supply-demand imbalances, and market conditions resolve themselves, it was maintained. If a weak market exists for primary and secondary ingots, there is no demand for scrap and it will not be generated. Scrap dealers must therefore turn to other, more profitable outlets to survive. If the demand for scrap by secondary ingot producers is accompanied by the right price, scrap will be brought out, however, both primary and secondary ingotmakers have reported a weak market which would not indicate a sharp rise in production or demand for scrap. In addition, a slowdown in the aluminum industry is producing reports of expected future short supplies of production scrap. In times of accelerated production, there is actually an excess of aluminum scrap because production scrap always exceeds consumption.

Cries of shortage, if heeded, would only serve to put an umbrella protection over the aluminum smelters industry at the expense of scrap dealers and exporters, and hindrances on the free export of aluminum scrap would not be in the best interest of the aluminum industry as a whole.

Asked to comment on reported competition between the primary aluminum and aluminum smelters industries, conferees replied by asking whether consumers of primary and secondary ingots have complained of shortages. The 3-cent differential in price between virgin pig and secondary ingot apparently is not causing shortages in any forms or types which are in plentiful supply. Consuming industries are deferring purchases because of a falling off in durable-goods business.

Conclusions.—Conferees concurred in the opinion that no critical shortage of aluminum scrap exists and that smelters have forced the development of export markets by dropping the price for scrap 3½ cents a pound. A continuation of the present business upsurge should release scrap now dormant and price problems should adjust themselves in a free competitive market as they did in the case of copper scrap. On the other hand, the imposition of artificial controls at this time would be considered a grave error by scrap dealers and exporters.

In view of difficulties in sustaining exports to the three principal foreign countries, conferees predicted that the export market will dry out over a period of time, returning the domestic market to its former advantageous position. They pointed out a 3-months' lag in the preparation of scrap which must be considered in relation to present scrap supplies.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Conferees concluded that—

(1) A domestic shortage of aluminum scrap, if existent, is only temporary.

(2) Plentiful supplies of dormant aluminum scrap can be made available upon a satisfactory price adjustment.

(3) Demand for scrap from the aluminum industry is down.

(4) Orders for export are also off and future shipments of aluminum scrap will reflect this downward trend.

It was the recommendation of the group that, barring unforeseen events or a worsening of existing conditions, no quota or other restrictions, other than those now in effect for security reasons, be invoked on the export of aluminum scrap.

An opportunity to again discuss the problem prior to any contemplated action was also requested by the conferees.

Mr. Adams assured the group that BDSA will not take any precipitous action without consulting other Government agencies, but he declined to make any commitment for further consultation with this group or give them any advance notice of any contemplated action. He assured them that their views and recommendations would be given careful consideration and again reminded them that this was their opportunity to present their views and recommendations. He thanked them for their time, trouble, and expense in coming to Washington.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM INDUSTRY TASK GROUP ON INDUSTRIAL DEFENSE, MAY 20, 1954

Industry attendance:
Wiser Brown, Aluminum Company of America, Pittsburgh, Pa.
Robert F. Buechner, Anaconda Aluminum Co., New York, N. Y.
Louis Lippa, Apex Smelting Co., Chicago, Ill.
G. A. Schwenk, Bohn Aluminum & Brass Corp., Detroit, Mich.
S. Keith Linden, Harvey Machine Co., Inc., Washington, D. C.
James D. Post, Republic Foil & Metal Mills, Danbury, Conn.
D. J. Hedgecock, Reynolds Metals Co., Richmond, Va.

Government attendance:
Department of Commerce:
Business and Defense Services Administration:
W. E. Haines, Assistant Deputy Administrator.
R. G. Boyd, Acting Assistant Administrator.
John H. Redmond, Consultant to the Administrator.
Harry L. Smith, Jr., Consultant to the Administrator.
Dudley A. Hendrick, Adviser on Industrial Defense.
George T. VanderHoef, Assistant Adviser on Industrial Defense.
Clyde M. Adams, Acting Director, Aluminum and Magnesium Division.
A. A. Snow, Assistant Director, Aluminum and Magnesium Division.
M. P. Ford, summary writer, Aluminum and Magnesium Division.
Other Government agencies:
James L. Farrell, Assistant Chief, Program Division, Financial Policy Activity, ODM.

Mr. Adams welcomed the group and introduced Mr. Haines (Assistant Deputy Administrator, BDSA) who set forth the purpose of the meeting. He pointed out that the big problem of World War II was how to divide the scarce materials pie, but that if we should receive an atomic attack and the United States were to become a battleground the resultant industrial defense problems would dwarf all previous allocation problems as important as the latter may be. He explained that certain industries, through task groups, have approached the industrial defense problem by preparing booklets such as the Emergency and Disaster Planning booklet prepared by the Chemical Division for distribution to the chemicals industry. He advised that ODM has questioned whether BDSA should encourage industry task groups to continue further work along these lines. It is BDSA's opinion, he stated, that many more such booklets would produce a high degree of redundency and, in view of the fact that ODM is in the provess of printing a guidebook in industrial defense, they felt that further efforts along these lines should be discouraged except where special circumstances within an industry call for a tailormade document. Mr. Haines went on to explain that the working group of BDSA's industrial defense program, in their study of industrial defense problems, have selected three which they consider of utmost importance for consideration by the various industry task groups. They are as follows:

(1) *Stocktaking.*—Mr. Haines suggested that it would be most desirable if the task group could conduct an inventory of what the aluminum companies within the industry have already done along the lines of industrial defense.

(2) *Company plans.*—It is considered vital if the group could in some way endorse the idea of company plans, and then take steps, if possible, to encourage development of such plans by each company. These plans should include the so-called nuts and bolts aspects of facilities protection and the broader concept of continuity of management. BDSA is firmly convinced that no amount of Washington talk or Government booklets will protect facilities owned by private management.

(3) *Concentration and dispersal planning.*—The task group should inquire into the concentration problem within the industry and decide what should be done and how. Mr. Haines was of the opinion that there are very few "hot" industries that don't have some kind of concentration problem, and he pointed out that mass movement would require a change in Government policy. As an example, he cited the action of the photographic industry whose concentration problem is very serious. They have prepared a very complete analysis of the problem and have proposed a stockpile program

as the solution. Mr. Haines advised that their proposal will be submitted to ODM for decision.

In conclusion, Mr. Haines pointed out that the Postattack Production Measures booklet might contain several appropriate measures for the group's consideration other than the three emphasized by him, and requested the task group to line up industrywide problems for the industry advisory committees to work on and plan an agenda for future meetings.

Mr. Adams then introduced Mr. John Redmond of the Koppers Co. and asked him to tell the group about the plan his company has developed. Mr. Redmond explained that at the time of the Korean incident the Koppers Co. took inventory of their situation and concluded that they were lacking both in their safety plan and industrial mobilization plan in effect at that time. Because of their additional needs, a defense security plan was developed which is comprised of five sections. The first three are general information and procedures; the fourth, objectives, policies and defense hazards; and the fifth, procedures necessary for achieving the objectives and policies of the plan. Mr. Redmond listed the objectives as follows:

(1) To safeguard company facilities from enemy attack, espionage, and sabotage.

(2) To insure uninterrupted operation of designated facilities which are considered vital.

(3) To establish physical security standards and procedures for key facilities to meet Government requirements on defense contracts.

(4) To establish security standards and procedures for all other facilities to meet requirements of the local situation peculiar to the individual plant.

Implementation of the overall plan is broken down into three phases, as follows:

The first phase (which has already been effected) is the accomplishment of things which could be done immediately with available materials and a nominal expenditure of funds such as extending and strengthening the safety program and improving maintenance practices. Carrying out this phase of the plan involved a nominal expenditure and, in many instances, a recouping of money spent.

The second phase is the type of action desirable, but of a nature that cannot be put into effect until enemy attack because the amount of money involved is an expenditure that cannot be assumed as a prudent business venture. This includes special protective structures and evacuation of personnel from industrial centers to fringe areas.

The third phase is to be accomplished in event of attack and declaration of war is made. This involves moving to emergency headquarters in event Pittsburgh is bombed and the Koppers Building is destroyed.

Mr. Redmond expressed the thought that the Koppers Co. considered the time involved in developing the defense security plan was well spent as they feel they are a much stronger company now. They have gained a number of advantages in carrying out the plan such as a much more thorough inventory of key personnel available and what is needed to get them ready for greater responsibilities.

Mr. Redmond's talk was followed by a general discussion of the Koppers plan with questions as to whether Civil Defense and neighboring and allied industries were to be consulted in formulating plans. The need for greater coordination with Civil Defense and their lack of qualified leaders was stressed. Other topics discussed were: (1) Manpower—whether Governments would insure availability of labor for rebuilding and operating plants; (2) coordination of various Government stockpile programs; (3) availability of financial assistance from Government for rebuilding; (4) current internal sabotage problems and legislation now before the Congress; (5) Civil Defense postattack limitations on travel; and (6) necessity of storage of emergency supplies—what will be available from Civil Defense.

The group was advised by Mr. Hendricks that the first three subjects were presently being studied by ODM policy committees. He urged the group to present their recommendations for forwarding to these committees.

Mr. Adams called for suggestions as to what the aluminum task group could do to spotlight the need for industrial defense within the industry. The following three suggestions were received:

(1) That industrywide distribution be made of a plan, such as the Koppers Co. defense security plan, for guidance and as evidence of what can be done at little or no cost, and in some instances, producing savings. The aluminum and magnesium associations were suggested as a means of completing distribution. Attention was called to the fact that distribution should include nonmembers of the associations.

(2) That industry conduct a survey of defense measures presently in operation within the aluminum industry, as it is felt industry would achieve greater results than Government.

(3) That a study be conducted of the concentration problem within the aluminum industry.

The group further recommended that three subcommittees from the task group be appointed to study and report on each of the above problems. Mr. Adams agreed that he would make the appointments and advise them at a later date as to what their assignments would be.

Mr. Adams then called the meeting to a close and cautioned the group that they had a serious task to perform and should be prepared for considerable workload. He thanked the members of the group and their companies for their time and attendance.

REVISED SUMMARY OF MEETING OF TASK GROUP ON CONSERVATION OF NICKEL IN CAST AND WROUGHT ALUMINUM ALLOYS FOR ALL-OUT MOBILIZATION, SEPTEMBER 14, 1954, COMMERCE BUILDING

GEORGE PERKINS, ALUMINUM AND MAGNESIUM DIVISION, BDSA, GOVERNMENT PRESIDING OFFICER

Industry members:
Wm. J. Edmunds, Jr., Kaiser Aluminum & Chemical Corp.
Everett G. Fahlman, the Permold Co.
W. E. McCullough, Bohn Aluminum & Brass Corp.
Howard Rowe, Aluminum Company of America
T. D. Stay, Reynolds Metals Co.

Nickel advisory panel:
H. J. French, the International Nickel Co.
E. J. Hergenroether, the International Nickel Co.

Government representatives:
Business and Defense Services Administration:
H. K. Herschman, Ferro-Alloys Branch, Iron and Steel Division.
A. A. Snow, Assistant Director, Aluminum and Magnesium Division.
Department of the Army:
Maj. M. L. Campbell, United States Army, General Staff, G–4.
Mr. E. H. Engelke, Office of the Chief of Ordnance.
Mr. J. E. Walker, Office of the Chief of Ordnance.
Mr. Eugene Kline, Office of the Chief of Engineers.
Mr. David McGuire, Office of the Chief of Engineers.
Mr. Tarr, Office of the Chief of Engineers.
Department of the Air Force:
Mr. J. C. McGee, Wright Air Development Center, Wright-Patterson AFB.

Dr. George Perkins called the meeting to order and introduced Mr. H. K. Herschman of the Iron and Steel Division. Mr. Herschman told the task group that the meeting had been called to permit a study of those recommendations of the Minerals and Metals Advisory Board nickel conservation panel report that pertain to nickel bearing aluminum alloys during full mobilization. He advised the committee that the Defense Department listed nickel as a top priority metal in any all-out mobilization program and the Office of Defense Mobilization had requested BDSA to implement the recommendations in the MMAB report. It was the desire of BDSA in formulating the nickel conservation program to have the advice and guidance of industry task groups in each area of industry consuming nickel.

V-belt pulleys

Dr. Perkins read the narrative covering the alloy A132 and the group agreed that it was correct as stated. The group was asked if there were any applications where alloy D132 was not suitable. They advised that alloy D132 does not compare favorably with the performance of alloy A132 when used for V-belt pulleys. The nickel representatives advised the task group that inasmuch as aluminum had previsously replaced cast iron in this application, it was likely that in an emergency, the product would revert to cast iron.

Alloy A132 is confined to heavy-duty type engines and is no longer used in tanks as it was during the war. It is also used for diesel pistons to a limited extent.

Pistons

The task group was asked as to whether anyone in the heavy-duty field was using an alloy not containing nickel. It was reported that Zollner Machine Co., Fort Wayne, Ind., uses an alloy Zor E132 containing 0.7 percent nominal nickel, range 0.5 to 1 percent. Zollner Machine Co. is the biggest buyer of heavy-duty pistons.

Nickel representatives asked why nickel is necessary in aluminum alloys. They were advised that aluminum alloys require nickel in order to maintain strength at elevated temperatures. Iron or manganese have a similar effect but both lower the ductility and reduce thermal conductivity. Head dissipation is therefore slower in aluminum alloys containing iron or manganese. This has been proved by test.

About 1 percent iron can be substituted for 1 percent nickel without reducing the ductility; characteristic needles are formed which make the alloy more difficult to cast just as when iron is alloyed with aluminum. The aluminum-nickel,iron alloy is not as resistant to severe stress as other aluminum-nickel alloys. Attempts to prevent formation of the iron needles have never been fully carried out.

It was the opinion of the task group that through a suitable research program, a nickel free alloy might be developed that would give satisfactory performance for the application under discussion.

At present there appears to be no need for nickel in automobile engine pistons. It is the general opinion of the industry that 0.5 percent nickel (minimum) is not needed in alloy D132 for successful operation of an automobile engine piston. Ford and Chrysler agree, as does Chevrolet, but General Motors specifications require nickel in alloy D132. The retaining of 5 percent nickel (minimum) in the specifications has been viewed as unreasonable by the aluminum industry for several years, but the automotive industry has remained unconvinced. Tests are underway on alloy F132 containing 0.5 percent maximum nickel (no minimum) and it is hoped that the automotive people will accept these specifications. Most automotive piston specifications still require a minimum of ½-percent nickel, but requests for deviations have been accepted. When the amount of nickel is this low it combines with the copper and its effect on alloy properties is greatly reduced.

Alloy D132 is essentially alloy 333 as used during World War II, the designation having been changed after the war.

Compression ignition engines are operated at higher temperatures than ordinary internal combustion engines and therefore require pistons made of an alloy containing nickel such as 142, (1.7–2.3 percent nickel) because of the better properties of that alloy at temperature above 400° F.

It was pointed out that during the Korean episode nickel was permitted in heavy duty diesel and locomotive pistons. Aluminum alloys used for heavy-duty diesel and locomotive pistons are in the 2 percent nickel class (A132). Heavy-duty truck and tractor pistons used aluminum alloys containing approximately 1 percent nickel (E132). There are also a number of forged heavy-duty diesel pistons, using alloy 4032 or a variety of Y alloy known as 2218 (B18S).

The task group was questioned as to whether 1 percent nickel would continue to be a requirement in the manufacture of diesel pistons. They advised that this matter would rest largely with the diesel engine manufacturers who would probably be reluctant to change material specifications without a new test program.

The task group recommended that letters be sent to the users of diesel engine pistons requesting them to conduct test programs using alloys of lower nickel content. The task group was doubtful about the propriety of making recommendations that would affect another industry but they were advised that any such recommendations would ultimately reach the claimant division, the Automotive Division in this case.

One member of the task group advised that his company has been cooperating with one customer (Caterpillar) for 2 years in conducting an experimental program to find a more satisfactory piston alloy than Y. It is the opinion of this user that the best current alloy is not good enough for their engine. During the experimental program the customer has been furnished with 4 experimental alloy compositions, 2 using no nickel, 1 using 1 percent and the fourth using 2 percent.

The task group was asked if they knew of any materials worthy of testing. Inasmuch as certain heavy-duty engine builders are convinced that nickel is definitely needed, it was felt that if the group recommended a specific alloy composition it would cause animosity. A more desirable alternative would be the acceleration of current programs aimed at the development of alloys of lower or

no nickel content. It was recommended that a letter be sent to diesel engine manufacturers, or to industry in general, suggestng that they work out a research and testing program with their suppliers along these lines.

The industry member conducting tests for Caterpillar advised that he thought that at least one of the alloy compositions not containing nickel submitted to Caterpiller has shown sufficient promise, in comparison with the two alloy compositions containing nickel, to warrant further testing.

Mr. McGee advised that some of the results of the Air Force's test program have been turned over to the Office of Technical Services, Department of Commerce. It was agreed by the task group that the situation pertaining to heavy-duty diesel pistons would also apply to heavy-duty truck pistons.

Most cast aluminum alloy bearings used today are for diesel and heavy-duty truck engines. There are also some Caterpillar roller truck bearings as well as rolling mill bearings up to about 40 inches diameter, weighing on to 1,000 pounds. The 750 type alloys are used for such bearings, these alloys containing approximately 6.5 percent tin. Nickel up to about 1.2 percent is used in these alloys to control the particle size and distribution of the tin and iron constituent and thereby provide a structure required for best bearing properties. A number of tests have been run in attempts to reduce the amount of tin but evidence to date indicates any change in that direction will affect the bearing characteristic adversely.

It was thought the nickel content of certain of these alloys could be reduced and some work has been done. An evaluation of the bearing service characteristics by the various users would be required prior to the adoption of such modifications.

One of the task group members mentioned bearings made substantially of steel with a thin aluminum alloy lining. This type of bearing is quite expensive by comparison with the solid aluminum alloy bearing, but it was thought that in a critical situation the users could change over to steel backed aluminum lined bearings rather than abandon aluminum bearings. A complete changeover would effect a savings of 80 percent of the nickel now consumed in this category. Such changes would undoubtedly necessitate changes in design of the bearings as well as in the engine design.

The bearing field is somewhat the same as the heavy-duty piston field. It was the opinion of the task group that the consumers would establish the effects of changes in bearing alloy on their operations. This could be accomplished by a test program.

Mr. McGee remarked that some people make large castings out of the bearing alloy material when only a small bearing surface is utilized. There is only one known aircraft application that is an example of this practice.

No service test programs on nickel-free 750 type aluminum alloy bearing materials are presently being conducted. Moraine Products is working with a General Motors proprietary alloy containing 4.0 percent silicon and 1.0 percent cadmium for a coating on steel back bearings. In the automotive field, Chevrolet has tried one alloy, but rejected it because of performance failure.

One industry member pointed out that one of the characteristics of the bearing picture is the type of shaft used. If nickel were reduced in the bearing alloy, the users of semihard shafts might have to go to hard shafts. It was pointed out that the rolling mill bearing is manufactured from a variation of the 750 alloy that has only 0.5 percent nickel. This is the lowest nickel content of the three alloys involved.

Gas stove burners

One industry member pointed out that there was another alloy (XC85) which has definite acceptance by certain stove companies. This alloy contains a nominal 2.6 percent nickel. This alloy is desirable because of the effect nickel has on the melting point of metal gas-stove burners—the higher melting point being desirable. Alloy 505 with 5 percent nickel was used prior to the war. The war eliminated this alloy and requests for alloy 505 have been very limited since the war.

Another industry member stated that they were still carrying alloy XC85 as an active alloy on their books. This alloy was replaced during the Korean emergency by alloy 85 with some unsatisfactory results.

It was pointed out that these alloys were not used for lightness of weight, but because they resisted corrosion and discoloration. A cast iron product they replaced must be porcelain enameled when used for stove burners. The nickel representatives advised that in another emergency the stove manufacturers would no doubt have to go back to cast iron burners.

Air cooled aluminum cylinder heads

Alloy A355 was developed 25 years ago. It has recently been examined to see if it would fulfill any of the newer requirements for high temperature service. The .7 percent nickel content provides exceptional creep resistance at elevated temperatures. Its use has so far been confined to compressor housing, but it might have increased uses today. Alloy A355 has replaced the British alloy RR50 because of much superior casting characteristics.

Wrought alloys—Applications requiring nickel

Certain forged pistons used in heavy-duty trucks and locomotives contain nickel. The big alloy in this field is 4032 (32S). Insofar as the task group knows there is no active experimental program underway by users of that alloy. As compared to the 132 type alloy, it has 1 percent nickel content.

There has also been interest in a wrought bearing alloy X8280 (XB80S) which in sheet form is used to produce a steel backed bearing. This alloy is a modification of the cast 750 type alloy with 0.5 percent nominal nickel content. Interest has been shown in this alloy by several diesel engine manufacturers and test programs are in progress.

The task group advised that some laboratory work has been done in connection with 2014 (14S) alloy for forging applications and that suggestions were made to users, but a test program has not developed.

Mr. McGee advised that alloy ML is used by 5 or 6 manufacturers and that there is a possibility that magnesium base alloys with thorium additions might replace the nickel-containing aluminum alloys for jet engine use.

Aluminum powder metallurgy products

Mr. Walker of Army Ordnance inquired about the use of aluminum powder materials, and was advised that most of the information on these materials has been supplied to the Department of Defense. One such user is a small company on the west coast making valves for the handling of exhaust gases. There is considerable experimental work underway. Forgings of certain alloys, including compressor wheels have been produced. Pratt-Whitney and several others are interested, but are under the impression that improvements are needed and that the alloy is still in the questionable category. Such materials can be both extruded and forged but would be very expensive for commercial use. Some forged parts are made for an English manufacturer (Rolls-Royce). The materials are abrasive in nature; and the task group was not sure they would be satisfactory as a piston. Expansion characteristics and heat conductivity can be controlled. The expansion characteristics are similar to those of pure aluminum. Zeerleder in Switzerland has shipped extruded SAP rods to an English engine manufacturer.

Mr. Walker further inquired if prospects were encouraging for applications of these materials, and was advised that they have good properties. There is no possibility of any reduced strength due to time or temperature. These products do not exhibit aging characteristics. If the material has 9,000 per square inch strength at 1,000°, it will retain that strength indefinitely. Elevated temperature fatigue properties are not as high as were hoped for. There is some doubt about stress rupture properties at the present time. This may be due to the manner of testing and it is being checked. Mr. McGee said that in general these products are as good at 600° F. as casting elements in the opinion of the Air Force. Airplanes are all built for higher Mach numbers now and will go higher in the future than the present 102.

Mr. McGee was asked if there were any extensive programs to develop aluminum powder metallurgy applications and advised that no money has been allotted for this purpose but that money had been allocated for research of the materials. Mr. McGee thought there were definite possibilities for the use of them if it could compete economically, but that there did not appear to be much possibility of this at the present time.

Military

Dr. Perkins pointed out that the military is a large user of nickel insofar as aluminum is concerned and suggested that the committee recommend that some of these military applications be checked to conserve nickel. A program might be undertaken which would be much more effective in saving nickel than the elimination of nickel in the civilian field. It was suggested that the tank cylinder head program be looked into very carefully and that the test program on alloy 356 started at Michaud be completed. One member of the group pointed out that alloy A355 was used in air cooled cylinder heads in 1941—0.7 percent nickel and 0.7 percent magnesium.

Air Force

Mr. McGee stated that the Air Force is very conscious of conserving nickel in aluminum alloys, mainly, because they know it is going to require so very much for jet aircraft. The Air Force has a large conservation program and is spending considerable money on research to try to conserve nickel in the jet program. He pointed out that temperatures range from 1,200° to 1,800° in the jet engines and the backbone of the entire program is nickel, cobalt and columbium. Any thought that titanium might do the job has been blown sky high. Titanium is not an elevated temperature material. As a result the Air Force is trying to conserve nickel in all other ways possible. It is their opinion that any money or effort should be spent in reducing the amount of nickel used in jets rather than spending it to investigate possible reductions elsewhere.

Mr. McGee stated further that the Air Force would be glad to receive recommendations as they have difficulty in keeping up to date. He pointed out that since they have been able to separate some rare earths, research has been started in that field during the last 6 months. Also, at the end of World War II, Germany successfully substituted other alloys in cylinder heads. He mentions also the report made at the end of the war by Francis C. Frary, who interviewed some metallurgist in Germany concerning aluminum alloy differences. It was his recollection that there was a discussion of substitute alloys for cast cylinder heads in the Frary report. Another member indicated that such alloys had been carefully checked against our standard alloys with no apparent advantage being found.

The task group pointed out that designers today must be educated to design without the use of nickel and other critical materials.

Dr. Perkins called for comments from the task group, and they were in agreement that the best way to approach the problem was to induce the users of aluminum alloys to ask suppliers for help in formulating new alloys using lower nickel or none, but providing equal performance.

One recommendation was to have claimant agencies called in for further meetings or perhaps to hold a joint meeting.

Suggested further action:

1. Recommend to users of diesel engine pistons a test program with their suppliers.
2. Check results of Air Force test program through Office of Technical Services, Department of Commerce.
3. Recommend effort toward nickel conservation in military application, e. g., tank cylinder head program at Michaud.
4. Discuss program with concerned claimant agencies.

MINUTES OF ALUMINUM TASK GROUP MEETING, OCTOBER 21, 1954, WALDORF-ASTORIA, NEW YORK, N. Y.

Industry members present:

J. W. Douglas, president, Republic Foil & Metal Mills, Inc., Danbury, Conn.
E. G. Fahlman, president, The Permold Co., Medina, Ohio.
D. A. Rhoades, vice president, and general manager, Kaiser Aluminum and Chemical Corp., Oakland, Calif.
David Reynolds, vice president, Reynolds Metals Co., Louisville, Ky.
R. W. Shaw, vice president, A. R. Purdy Company, Inc., Lyndhurst, N. J.
Leonard Starr, secretary, Michael Flynn Manufacturing Co., Philadelphia, Pa.
D. Wilmot, vice president, Aluminum Company of America, Pittsburgh, Pa.
Lawrence M. Brile, president, Fairmont Aluminum Co., Fairmont, W. Va.

Government representatives present:

Harry L. Smith, Jr., Consultant, BDSA.
Raymond G. Boyd, Consultant, BDSA.
George Perkins, Director, Aluminum and Magnesium Division, Chairman.

1. Dr. Perkins reported on the activities of the Aluminum and Magnesium Divisions with respect to these subjects:
   (*a*) Expansion goals.
   (*b*) World survey.
   (*c*) Aluminum utilization by the military.
   (*d*) Industry statistics.

2. *Magnesium representation in the Division.*—It was the recommendation of the group that the magnesium industry be invited by the Division to appoint a man to consultant status who would spend part time within the Division in order

that closer liaison could be maintained between the Division and the magnesium industry.

3. *Commerce building exhibit.*—The task group indicated its willingness to cooperate with the Department of Commerce in furnishing an exhibit for the main lobby of the Commerce Building. It was recommended that this be handled through the publicity committee of the Aluminum Association.

4. *Industry conferece.*—The task group recommended against an industry conference at the present time until specific problems should arise for discussion. It was felt that the new committee appointed at the Aluminum Association meeting on the morning of October 21 to handle relations between the association and Government agencies would furnish closer liaison and thus make it unnecessary for a conference to be held at the present time. This Aluminum Association committee, appointed by Mr. Rhoades, president of the Association, is to contact the Division within the near future.

5. *WOC program.*—The task group indicated its complete support of the WOC Program within BDSA.

6. *Staffing of the Aluminum and Magnesium Division, BDSA.*—It was the unanimous recommendation of the Task Group that the following rule be observed in staffing the Director and Deputy Director positions within the Aluminum and Magnesium Division.

(*a*) The Director's position to be staffed by the three integrated producers, Alcoa, Kaiser, and Reynolds, in that order, the succession dates for this position to be approximately February 1 and August 1 of each year with the name of the next man in line to be supplied to the incumbent Director no later than 45 days before the succession date so that proper clearance can be established and to facilitate prompt transfer of office.

(*b*) The Deputy Director's position to be staffed by representatives of nonintegrated companies from the aluminum industry; the succession dates for this position to be approximately May 1 and November 1 of each year; the selection of the man for this position to be handled by this task group and all arrangements to be concluded at least 45 days before the succession date.

7. *BDSA Industry Contact.*—It was recommended by the group that this Division make all possible effort within various Government agencies to broaden the use of aluminum for military and civilian applications, and that the following two applications specifically be investigated:

(*a*) Use of aluminum for air conditioning ducts

(*b*) Aluminum for highway lights.

It was also recommended that all possible opportunities be utilized for release of information on activities of the industry to the public.

MINUTES OF ALUMINUM TASK GROUP MEETING, JANUARY 27, 1955, PARK LANE HOTEL, NEW YORK CITY

Industry members present:

J. W. Douglas, president, Republic Foil & Metal Mills, Inc., 55 Triangle Street, Danbury, Conn.

E. G. Fahlman, president, the Permold Co., Medina, Ohio

D. Wilmot, vice president, Aluminum Company of America, Alcoa Building, Pittsburgh, Pa.

Lawrence M. Brile, president, Fairmont Aluminum Co., Fairmont, W. Va.

R. W. Shaw, president, A. R. Purdy Co., Inc., Lyndhurst, N. J.

Leonard Starr, secretary, Michael Flynn Manufacturing Co., 700 East Godfrey Avenue, Philadelphia, Pa.

D. A. Rhoades, vice president and general manager, Kaiser Aluminum & Chemical Corp., 1924 Broadway, Oakland, Calif.

Government representatives present:

Raymond G. Boyd, consultant, BDSA.

Harry L. Smith, Jr., consultant, BDSA.

George Perkins, Director, Aluminum and Magnesium Division, chairman.

William E. Dunlap, Deputy Director, Aluminum and Magnesium Division.

Harold C. Erskine, consultant, BDSA.

1. Dr. Perkins reported on the activities of the Aluminum and Magnesium Division with respect to these subjects:

(*a*) Scrap export.
(*b*) Expansion goals (sand castings, extrusions, etc.).
(*c*) Essential civilian portion of mobilization requirements.
(*d*) World survey.
(*e*) Military use of aluminum.
(*f*) Capacity studies.
(*g*) Commerce Building exhibit.
(*h*) School programs (Industrial College of the Armed Forces, etc.).
(*i*) Conservation program.
(*j*) Delegation 5.

2. It was the recommendation of the task group that the Director of the Division set up such additional task groups as he sees fit to study such specialized problems as DMS orders, mobilization requirements versus capacity of individual mill products, etc. It was brought out that the mobilization committee recently set up by the aluminum association would presumably, in the position of acting as liaison between industry and Government, take care of many of the problems mentioned forthwith.

3. The task group unanimously agreed that industry would be unwilling to furnish an exhibit for the main lobby of the Commerce Building due to the fact that such a display was limited to a duration of 3 weeks and it was felt that this was too expensive to provide an exhibit for such a short time.

4. It was the recommendation of the task group that representatives of the magnesium industry be included in the rotation of the Deputy Director position, perhaps in the order of one magnesium representative every 2 or 3 years.

5. The task group indicated its complete support of the WOC program within BDSA so far as staffing the Director and Deputy Director positions. It was pointed out that by the rotation system Kaiser would provide the Director for the 6-month period commencing August 1, 1955.

Messrs. Fahlman and Erskine were commissioned to line up a Deputy Director to succeed Mr. Dunlap whose term ends April 30, 1955. His successor should preferably come from secondary industry but, in any case, they would fill the position at their own discretion.

6. The task group voted unanimously to supply 1 out of every 3 of the Assistant Administrators. In view of the fact that a representative of the magnesium industry, Mr. Arthur Winston, presently occupies the position, the aluminum industry would provide such individual the latter half of 1956. The interim periods should be staffed by a representative from the Copper and Steel Divisions.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM PRODUCERS INDUSTRY ADVISORY COMMITTEE, JANUARY 28, 1955

Dr. George Perkins, Director, Aluminum and Magnesium Division, BDSA, Mr. W. S. Floyd, Assistant Director for Materials, ODM, Government presiding officers

Committee members:
*D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
*Frank L. Magee, Aluminum Company of America, Pittsburgh, Pa.
*D. A. Rhoades, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Thomas J. Ready, Jr., Kaiser Aluminum & Chemical Corp., Oakland, Calif.
R. S. Reynolds, Jr., Reynolds Metals Co., Richmond, Va.
David P. Reynolds, Reynolds Metals Co., Louisville, Ky.

Other industry representatives present:
H. C. McCord, Aluminum Company of America, Pittsburgh, Pa.
Ward C. Humphreys, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Maxwell Caskie, Reynolds Metals Co., Richmond, Va.
W. M. Wells, Reynolds Metals Co., Richmond, Va.
J. M. Stuart, Reynolds Metals Co., Louisville, Ky.

*Present at meeting.

Government representatives present:
Department of Commerce:
Business and Defense Services Administration:
Charles F. Honeywell, Administrator.
William A. White, Sr., Assistant Deputy Administrator.
A. W. Winston, Assistant Administrator.
Charles R. Hersum, Director, Industry Advisory Committee Staff.
Anne Bethea, Summary Writer, Industry Advisory Committee Staff.
Aluminum and Magnesium Division:
W. E. Dunlap, Deputy Director.
H. C. Erskine.
A. A. Snow.
M. Bailkin.
Other agencies:
Office of Defense Mobilization:
James P. Durkin, Assistant General Counsel.
Edwin A. Harris, Chief, Light Metals Division.
General Services Administration:
A. J. Walsh, Commissioner, Emergency Procurement Service.

PURPOSE OF THE MEETING

The Aluminum Producers Industry Advisory Committee met on January 28, 1955, under the sponsorship of the Business and Defense Services Administration, for the purpose of obtaining for the Office of Defense Mobilization industry's views on metal availability for the aluminum stockpile program.

Dr. George Perkins, Director, Aluminum and Magnesium Division, BDSA, and Mr. W. S. Floyd, Assistant Director of ODM for Materials, were the Government presiding officers.

OPENING REMARKS

Charles R. Hersum, Director, Industry Advisory Committee Staff, BDSA, opened the meeting and commented briefly on the rules of conduct governing industry advisory committee meetings.

Mr. Perkins then presented BDSA Administrator Charles F. Honeywell to the committee.

INDUSTRY COOPERATION IN THE WOC PROGRAM

Mr. Honeywell expressed his appreciation for the aluminum industry's support of the WOC program and complimented the industry on the high caliber of men which it has made available to BDSA. The WOC program is constantly expanding as more industries are becoming aware of the advantages of maintaining this type of liaison between industry and Government. WOC's are needed not only to staff the industry divisions but also to fill the Assistant Administrator positions, he emphasized, The present Assistant Administrator for the metals area, Mr. Arthur W. Winston, was drawn from the magnesium industry. Two members of the aluminum industry, Messrs. Harry Smith and Raymond G. Boyd, also served as Assistant Administrators in this area, Mr. Honeywell recalled, adding that he hoped that industry cooperation would continue as it has in the past. Since WOC's for the Assistant Administrator position will be rotated every 6 months among the steel, copper, and aluminum industries, the aluminum industry would probably be called on to furnish a man for the last half of 1956.

In commenting on the problem of overlapping requests from various agencies for industry assistance, Mr. Honeywell recalled a suggestion made at a recent steel industry meeting that BDSA, being the prime recipient of the industry's manpower, should assume responsibility for providing the services that other agencies want.

At a recent meeting of the task group appointed to study and make recommendations on the future programs and activities of the Division, Dr. Perkins reported, members of the aluminum industry indicated that the industry could be counted on to furnish WOC's for the Assistant Administrator and Division Director positions when so requested by BDSA.

METAL AVAILABILITY FOR THE ALUMINUM STOCKPILE PROGRAM

Current status of the stockpile program.—Edwin A. Harris, Chief, Light Metals Division, ODM, explained that special arrangements had been made to obtain security clearances for everyone in attendance as classified material would be discussed.

After reviewing developments since the last meeting of the industry, Mr. Harris, with the aid of classified charts pertaining to stockpile matters, commented on the planning that has gone into the development of the present stockpile program.

Back in 1952, he recalled, requirements for full mobilization were projected over a war period on the premise of meeting defense requirements in full and maintaining the civilian economy at a subsistence level. At that time, ODM also obtained a calculation of the total wartime supply from the primary and secondary domestic industry. The difference between the supply and requirements figures indicated a deficit in metal availability to meet full mobilization requirements. The solution to the problem of filling the gap was to raise the expansion goal by an amount which, if met before the outbreak of war, would supply one-third of the deficit. In line with this thinking, the stockpile objective was set at the amount of the remaining two-thirds of the gap. As time went on, however, the international situation did not worsen, thus providing more time for planning. Also, actual shipments of the domestic industry decreased substantially as compared with the previous year, suggesting that the stockpile could be accumulated at a more rapid rate than was originally estimated. Also, Canada's coming into the market more strongly than in the past gave rise to the belief that a larger supply could be counted on from that source to increase availability of metal in the domestic market. In the light of these factors, the industry was asked to submit its best estimates of its requirements on a 5-year projected basis to assist the Government in the maximum stockpile program which could be accomplished without further facilities expansion. As it became apparent that the entire wartime deficit could be met with a higher stockpile and that this could be completed in a reasonable period of time, the expansion program was dropped. The stockpile program adopted provides for a steady reduction in the rate of acquisitions for 1954–57, with acquisitions gradually tapering off until the goal is reached. This program has not been universally accepted as ideal, Mr. Harris said, adding that some authorities have expressed concern that the projected date for completion of the objective extends well into the future. However, after many discussions with the Defense Mobilization Board, a decision was made to follow this program, which was also cleared informally with members of the Joint Committee on Defense Production.

Discussion.—On the basis of a classified table showing figures on projected aluminum distribution for 1955–57, prepared by ODM, and a summary entitled "Aluminum Supply 1950–57 and Demand 1950–54," prepared by the Division, copies of both of which were distributed at the meeting, the committee discussed at length the amount of aluminum scheduled for the stockpile in 1955. Some members urged that the program for stockpile accumulations be made more flexible as to delivery time and also that the amount earmarked for stockpile in the second quarter be adjusted downward. Other members indicated that they were willing to rely on the judgment of the Government on how best to implement the stockpile program. However, stockpile requirements should be so tempered as not to starve the civilian economy; a strong aluminum industry will have more resiliency and be more readily available in an emergency, the committee members emphasized.

Committee members called the attention of ODM and BDSA officials to an apparent tightening of the aluminum supply which is being accompanied by considerable scare buying of metal. This was attributed, in part, to replenishment of inventories on the part of both the consumers and their customers. Coming labor negotiations are causing customers, especially, to stock up in anticipation of another price increase.

The export of scrap has also contributed to the distortion by draining material out of the market which was normally considered part of the domestic supply, committee members revealed. This pressure, they said, has resulted in higher prices for secondary metal, causing consumers to rely more heavily on primary metal. They were confident, however, that, if the industry is allowed some flexibility in furnishing metal for the stockpile, the metals situation would correct itself by the end of the year, if not by the end of the third quarter. Filling the demand for primary metal in the first quarter, they declared, would cause a subsidence of demand in subsequent quarters.

Mr. Harris proposed that the industry's problem might be alleviated (1) by extending delivery of the quantities called for in the first quarter to June 30, 1955, and (2) by having ODM issue calls for the 6-month period covering the second and third quarters of the calendar year for delivery not later than 30 days after the close of the third quarter. This would put the industry in the more flexible position of handling the second-quarter call in the third quarter if it became

necessary to do so. The stockpile objectives, he believed, could be met by following this plan, which is predicated on the assumption that the overall projections for the year are fairly sound. A committee member, comparing the two tables that had been distributed, observed that Division figures show the amount available for civilian use in 1955 as being 10 percent greater than in 1954. He also commented that during 1954 direct military shipments never equalled the quantities set aside for this purpose. Mr. Harris indicated that, according to the Department of Defense, military needs in 1955 will follow substantially the same pattern as in 1954.

After discussing the matter, the committee favored operating under the plan proposed by Mr. Harris if ODM would approve it. They stipulated, however, that prior to the end of June the committee should be called in again to review the program in the light of circumstances existing at that time.

After some discussion, the date of the next meeting of the committee was set for Tuesday, May 24, 1955.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The committee recommended:

1. That delivery of first-quarter stockpile acquisitions be extended to June 30, 1955.
2. That ODM issue calls for the 6-month period covering the second and third quarters, for delivery of the total not later than 30 days after the close of the third quarter, or November 1.
3. That the program be reviewed on May 24, 1955, in the light of circumstances existing at that time.

CLOSING REMARKS

Mr. Floyd thanked the committee members for a most instructive and interesting meeting.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM PRODUCERS INDUSTRY ADVISORY COMMITTEE, MARCH 7, 1955

H. C. Erskine, Director, Aluminum and Magnesium Division, BDSA, Government presiding officer

Committee members:

*D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
Frank L. Magee, Aluminum Company of America, Pittsburgh, Pa.
*D. A. Rhoades, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Thomas J. Ready, Jr., Kaiser Aluminum & Chemical Corp., Oakland, Calif.
R. S. Reynolds, Jr., Reynolds Metals Co., Richmond, Va.
*David P. Reynolds, Reynolds Metals Co., Louisville, Ky.

Other industry representatives present

Hary L. Smith, Jr., Aluminum Company of America, Pittsburgh, Pa.
Ward C. Humphreys, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Maxwell Caskie, Reynolds Metals Co., Richmond, Va.

Government representatives present:

Department of Commerce:
Marshall M. Smith, Deputy Assistant Secretary for International Affairs.
John Kilby, Bureau of Foreign Commerce.
Carl F. Oechsle, Deputy Assistant Secretary for Domestic Affairs.
E. C. Grim, Advisory Committee on Export Policy.
Business and Defense Services Administration:
Charles F. Honeywell, Administrator.
William A. White, Sr., Assistant Deputy Administrator.
Arthur W. Winston, Assistant Administrator.
Herman Director, Adviser on Stockpiling and Conservation.
George Elliman, Adviser on Foreign Activities.
Richard Blaisdell, Office of Public Information.
Charles R. Hersum, Director, Industry Advisory Committee staff.
Anne Bethea, summary writer, IAC staff.
Aluminum & Magnesium Division
A. A. Snow.
Morris Bailkin.

*Present at meeting.

Other agencies:
Office of Defense Mobilization:
Victor E. Cooley, Deputy Director.
Edwin A. Harris, Office of Materials.

PURPOSE

A meeting of the Aluminum Producers Industry Advisory Committee was held on March 7, 1955, to obtain the industry's views on metal availability for the aluminum stockpile program and to review the scrap export situation.

H. C. Erskine, Director, Aluminum and Magnesium Division, BDSA, was the Government presiding officer.

METAL AVAILABILITY FOR THE ALUMINUM STOCKPILE PROGRAM

After opening the meeting, Mr. Erskine distributed a table entitled: "Aluminum Supply 1950–56 and Demand 1950–54," prepared by the Division. He also discussed statistics (classified) on the aluminum stockpile program for 1955–56. The conclusion reached from these figures, he stated, is that a deficit in metal availability will occur in 1955 and 1956. He then invited comments from the industry.

Discussion.—The committee members called the attention of ODM and BDSA officials to the critical situation that has developed in the aluminum industry and questioned the validity of the requirements which they are being asked to meet. They attributed the artificiality in demand partly to scare buying, amounting almost to hysteria, whereby consumers are placing orders for primary aluminum far beyond their normal usage which the producers are unable to fill, causing consumers to claim that they cannot obtain the material needed for their operations. This scare buying is due in part to anticipated price increases in view of union contract renewals in the midyear, they believed.

Contributing to the critical condition of the industry today is the sharp rise in scrap exports coupled with the steady decline in scrap imports at the very time when the economy of the country is rapidly expanding. The situation that has developed in the secondary market has also contributed to the pressure on the primary producers, for the higher price of secondary metal in causing consumers to rely more heavily on primary metal. This trend is also communicated to the scrap market. For example, fabricators are refusing to turn back their scrap to the sheet rollers and are offering it on the open market at prices higher than those for primary pig.

The consensus of the committee was that the stockpile requirement for 1955 should be reduced by the amount of the 1955 deficit in metal availability less the amount anticipated for scrap exports, the reduction to become effective during the second, third, and fourth quarters of 1955. The amount of the reduction would be repaid subsequent to 1955. They opposed any reduction in the stockpile goal. To afford industry the maximum benefit, they urged that action should be taken before the end of the first quarter.

In support of their position, the committee members declared that present stockpile policies are stifling the industry's growth and throttling competition. Producers are forced to ration their output much in the manner of a self-imposed CMP. New uses and markets for the industry's products must be developed now to absorb the industry's production several years hence when the stockpile goal has been achieved. They recalled the temporarily depressed condition of the industry when controls were removed both after World War II and the Korean emergency. Once inventory problems were solved, however, the industry continued to grow.

Development of new and legitimate uses for aluminum has been minimized, the members declared. Figures cited by one member indicated that the increased demand for aluminum products in 1955 as compared with 1954 will almost equal the amount of the 1955 deficit discussed. Another fact mentioned was that United States and Canadian primary production has increased tenfold since the advent of World War II.

The members also cited difficulties in obtaining financial aid from banks for expansion purposes. They attributed this to the inflexible nature of the stockpile program which is preventing the industry from proving the extent of civilian demand. If the program were relaxed somewhat, the industry would be better able to expand without Government help.

The country is far better prepared for an emergency than it was 2 years ago when shipments were not being made to the aluminum stockpile, they commented. A reduction in the 1955 stockpile accumulations would not imperil the security of

the Nation; additional production will start coming in by the end of the year which, coupled with the amount of metal already in the stockpile, plus additional capacity that could be installed within 15 months with additional equipment will adequately cover the Nation's needs.

In reply to Mr. Erskine's question, a committee member said that the deferral of stockpile deliveries suggested at the last meeting of the committee will not make any more aluminum available to their customers. If this arrangement is followed, at least one company would have to shut down a good portion of its operation in the third and fourth quarters of 1955.

The committee suggested that production contracts be extended for the reactivated facilities at Badin and Massena so as to relieve the demand correspondingly on the other expanded facilities of the industry.

The committee members also called attention to the fact that, under present expansion contracts, metal produced by expanded facilities that is not earmarked for the primary producers must go either into the stockpile or to nonintegrated producers. Therefore, should stockpile accumulations be reduced, the nonintegrated producers would have a priority on the released metal. If the committee's recommendation is followed, this problem should be seriously considered and a procedure developed for disposing of the supply which will be released. The committee members with long experience and knowledge of the trade, offered to assist in the solution of this problem if so requested by the Government. They also suggested that some provision may have to be made for fabricators who have no conversion facilities.

A committee member explained a GSA procedure whereby the industry is required first to advertise in the American Metal Market the availability of any metal not taken into the stockpile and then to make quarterly reports to GSA on sales to nonintegrated users.

SCRAP EXPORT SITUATION

Several charts and tables were distributed at the meeting, depicting United States Exports of Aluminum Scrap, 1953–54; Net Imports or Exports of Aluminum Scrap 1953–54 and Estimated 1955; and Primary, Secondary, and Scrap Aluminum Prices, 1954–55. Total exports of aluminum (including those to Canada) in 1953 amounted to 45.9 million pounds and included 9,162,000 pounds of scrap, Mr. Erskine reported. In 1954, scrap accounted for 78,676,000 pounds of total aluminum exports of 106 million pounds. Export licensing in 1955 is continuing at about the 1954 level. From 1943 to 1954, scrap imports showed a net gain over scrap exports. However, in 1954, this trend was reversed with 79 million pounds exported and only 19 million pounds imported.

Discussion.—The committee unanimously recommended that the exportation of scrap be limited as far as possible in the second quarter 1955 and that the situation be reviewed for the third quarter. If a reduction is made in stockpile accumulations for 1955, they advocated that a reasonable ceiling should also be placed on export shipments of primary pig, ingot, and secondary ingot to prevent domestic purchasers from reselling abroad at high prices. This would bolster any benefits resulting from the limitation of scrap exports. The inclusion of mill products was not advocated since imports into the United States have been rising at a substantial rate, indicating that a surplus exists abroad; therefore, it is unlikely that these products would be exported from the United States.

A limitation was suggested of 2 million pounds (gross) per quarter on scrap exports and 2 million pounds (gross) per quarter on primary pig and ingot, including secondary ingot, but no conclusion was reached as to what the figure should be. The committee members emphasized, however, that only a strong release of metal would produce the desired results in the secondary market and indicated that they would favor any reasonable limitation which would correct the serious imbalance that exists in the secondary market without throttling normal exports of primary and mill products.

Commenting on other factors that must be considered, the committee emphasized that, as some producers have foreign connections, any export restrictions imposed should take into account the historical pattern of shipments. Some considerations would also have to be given to plants that are coming back into operation after a shutdown. They pointed out that some members have plants in Mexico that use pig and ingot, one of which has been operating only a short time. If exports to Mexico are curtailed, production in those plants would be hampered. It was also pointed out that a large percentage of exports are going into Canada for defense products, some of which are being made for the United States. In view of these and other considerations, the committee suggested that the matter be studied very carefully.

As licenses are not required for shipments to Canada, John Kilby, Bureau of Foreign Commerce, stated, the United States has no way of restricting exports to that country.

The figures on 1954 scrap shipments, Marshall Smith, Deputy Assistant Secretary for International Affairs, observed, show that shipments in December were at almost the same level as in February, with demands from West Germany exceeding those of other countries.

Questioned about restrictions on copper exports, Mr. Smith explained that these involve several factors quite different from those in the aluminum situation; for example, as the United States is largely dependent on copper imports and does not control the source of supply, restrictive action could be justified even at the expense of friendly foreign countries. In the case of aluminum, however, the same justification for drastic action does not exist. However, this matter has not yet been evaluated from the international standpoint, he said, adding that the type of action taken by the Government would depend on the duration of the situation in the aluminum industry and the possibilities for its alleviation.

Edwin A. Harris, Office of Defense Mobilization, indicated that reducing scrap exports to the figures discussed would be a tremendous undertaking, particularly in view of the situation in West Germany. According to all reports, he said, their demands for scrap are due to an overall metal shortage. If they cannot buy scrap, they will have to obtain metal from somewhere. Therefore, as mentioned before, curtailing only scrap exports will not eliminate the trouble.

The committee further explained that, if part of the 1955 deficit in metal availability could not be corrected by restricting exports, as has been suggested, the industry would ask that the total amount of the stockpile accumulations be reduced by an amount necessary to bring the metal situation in balance in this country. Restricting exports is preferable, they said, because the customary users of scrap should not be forced to look for a new source of material. Such a restriction would also encourage the generators of scrap to release their stocks instead of holding them for higher prices.

In reply to questions, Mr. Erskine explained that BDSA will submit the committee's recommendation to the Secretary for consideration. The decision on stockpile matters will ultimately have to be made by ODM, but the imposition of export controls is a responsibility of the Commerce Department.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION

WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM SMELTERS INDUSTRY ADVISORY COMMITTEE

APRIL 20, 1955

H. C. Erskine, Director, Aluminum and Magnesium Division, BDSA, Government Presiding Officer

Committee members:

*H. A. Frutig, vice president, Aluminum & Magnesium, Inc., Sandusky, Ohio.
*J. M. Stone, president, Aluminum Smelting & Refining Co., Inc., Bedford, Ohio.
*A. Nichamin, manager, Federated metals division, American Smelting & Refining Co., Detroit, Mich.
Louis Lippa, vice president, Apex Smelting Co., Chicago, Ill.
Philip Scheibner, Associated Metals Company of California, Oakland, Calif.
*Fred Berman, vice president, Berman Bros. Iron & Metal Co., Birmingham, Ala.
*Lowell S. Thomas, president, General Smelting Co., Philadelphia, Pa.
*Samuel Greenfield, president, Samuel Greenfield Co., Inc., Buffalo, N. Y.
Edw. S. Christiansen, president, Industrial Smelting Corp., Miami, Fla.
*Dr. J. P. Brull, chief metallurgist, North American Smelting Co., Wilmington, Del.
*Herman J. Galamba, vice president, Sonken-Galamba Corp., Kansas City, Kans.
*E. A. Bergman, president, United States Reduction Co., East Chicago, Ind.

*Present at meeting.

Other industry representatives present:
Robert K. Beck, president, Apex Smelting Co., Chicago, Ill.
Julius Yacker, vice president, Industrial Smelting Corp., Miami, Fla.
Government representatives present:
Department of Commerce:
Bureau of Foreign Commerce:
John H. Kilby, Director, Materials Division.
Leo S. Peak.
Louis Kupper.
Business and Defense Services Administration:
Arthur W. Winston, Assistant Administrator.
Richard Blaisdell, Office of Public Information.
Aluminum and Magnesium Division:
Harold C. Erskine, Director.
W. E. Dunlap, Deputy Director.
A. A. Snow, Assistant Director.
M. Bailkin.
Industry Advisory Committee staff:
Charles R. Hersum, Director.
Maria Rotondo, summary writer.
Other agencies:
State: Edmund Getzin, National Resources.
ODM: E. A. Harris, Chief, Light Metals Division.
FOA: T. L. Sweet, Chief, Industrial Specialists Division.
SBA: George S. Hartman.

PURPOSE OF MEETING

Mr. Harold C. Erskine, Director, Aluminum, and Magnesium Division, BDSA, presided at a meeting of the Aluminum Smelters Industry Advisory Committee on April 20, 1955, called at the request of committee members to discuss aluminum scrap supply and consumption, the impact of aluminum scrap exports on domestic supply and markets, and the effects of recent Government actions on the aluminum smelting industry.

PRELIMINARY REMARKS

Calling attention to a booklet recently issued by BDSA and entitled, "A Job for Management," copies of which were distributed to the committee members, Mr. Erskine suggested careful reading of the information contained therein on industrial defense. He added that further information on this subject is available upon request to BDSA.

Copies of several statistical tables compiled by the Aluminum and Magnesium Division and containing information on total aluminum supply and demand, as well as data on the recovery, consumption, and export of aluminum scrap, were also distributed to the committee as discussion aids.

ALUMINUM SCRAP SUPPLY AND CONSUMPTION

Résumé.—A committee member brought up to date facts presented at the previous meeting of the committee (April 29, 1954) to emphasize the impact of aluminum-scrap exports on the domestic smelting industry, and point out the prospective shortage of scrap should exports continue at the present rate or increase.

Although the decline foreseen by smelters at the last meeting was shortlived, and industry operations returned to normal in October and November, 1954, he said, the sustained pickup can be attributed to a general improvement throughout all segments of the aluminum industry. As a result of improved conditions, the smelting industry finds it difficult to meet the criteria established by the Government for imposing export quotas. However, several problems are of real and serious concern to the smelting industry, he emphasized. One is the danger of losing vital domestic scrap to foreign markets through excessive exports. Another is a prospective inability to meet projected requirements for secondary aluminum because of scrap shortages. In view of the chaotic conditions which occurred last summer in the industry, smelters are of the opinion that preventive steps should be taken now to avoid a recurrence, he said.

The industry view is that some form of Government action is necessary to effectively balance total aluminum supply and demand, he continued, citing various statistical data on past and current performance to support the contention

that, while the supply of secondary ingot is now adequate, smelters are justified in expressing alarm with regard to Government policy affecting them.

It was pointed out that smelters relied heavily on their inventories in 1954 to hold prices at levels established by the primes and to avoid, at the same time, uneconomic purchasing of scrap. A unique situation exists in the aluminum industry, as differentiated from other primary metals such as copper and steel, in that the source of domestic aluminum supply is limited to three primary producers who establish a ceiling on domestic ingot prices, upon which smelter ingot and scrap prices are predicated.

Primary aluminum prices act as a barometer to consumers and, whenever shortages are indicated, pressure is put on the Government to take action. Such pressure recently resulted in a Government decision to divert aluminum deliveries intended for stockpile to civilian consumption. And artificial demand for primary aluminum, causing consumers to claim shortages, was created by a chain-reaction series of events which began with a highly increased rate of scrap aluminum exports during 1954, forcing secondary ingot prices from 5 to 7 cents above primary domestic and foreign pig prices. Purchases of primary metal and foreign imports thus increased, raising scrap prices domestically, and encouraging further exports of scrap.

Had total scrap exports in 1954 not been as high as they were (78.1 million pounds), diversions of stock-bound aluminum to civilian use may have been considerably less than the 150 million pounds released, it was maintained.

The inordinate rise in scrap aluminum exports and prices, together with the decline in scrap receipts, the drop in smelters' inventories, and increased demand, have created unstable, abnormal conditions in the aluminum industry which require Governmental aid in correction. Unless scrap reserve inventories usually maintained by smelters can again be built up, increasingly rising demands upon smelters resulting from an anticipated rapid growth in the domestic economy cannot be met. Based upon Aluminum Smelters Research Institute prognostications of scrap supply and consumption, a substantial domestic scrap shortage is indicated for 1955, which may necessitate additional diversions of stockpile materials to meet demand. A scrap shortage might again bring about the cycle of higher prices for both scrap and secondary aluminum, resulting in increased consumption of primary aluminum by fabricators and an imbalance in total aluminum supply and demand.

Another aspect of high exports of scrap aluminum is the fact that the material is used to produce pig and remelt scrap in low-wage countries which is then sold in competition with United States secondary aluminum products. Not only is the aluminum smelting industry deprived of its basic raw materials and forced to compete with foreign products, but also other metals in critical supply such as nickel and copper are irreplaceably lost in shipments of scrap aluminum outside the United States, it was pointed out.

Discussion.—Should the present high volume of exports continue, the supply of scrap in the system will be insufficient to meet demand, another committee member added, because generated new scrap cannot keep up with the rapid economic growth and rising volume of fabricated products.

He urged that some method be devised for distributing the burden of aluminum exports more equitably on the entire aluminum industry, pointing out that, since smelters are dependent on scrap aluminum for their basic raw materials, they have borne the impact of increased exports almost solely. Moreover, secondary aluminum prices have been the effect of export policy, rather than the cause of reported aluminum shortages. The combined action of diverting material from stockpile delivery and licensing scrap for export, he maintained, amounts to an export of prime pig. Smelters are further penalized by United States export policy in that they cannot use prime pig to replace scrap both for economic reasons and because the alloying elements contained in scrap are in shorter supply than aluminum itself.

Although aluminum scrap exports in 1954 accounted for only 10 percent of available domestic scrap, this relatively small percentage can jeopardize the adequacy of scrap supply in 1955, committee members believed.

BDSA made its recommendation in connection with the decision to divert deliveries from stockpile accumulations after a thorough analysis of the overall aluminum supply-demand outlook, Mr. Erskine stated. According to BDSA estimates, he said, sufficient scrap will be generated in 1955 to permit exports at the same levels previously established. Including metal diverted from stockpile delivery, total aluminum supply should be sufficient to meet domestic demand.

Shortages of metal in certain segments of the aluminum industry were found to exist, Mr. Erskine added, and the decision which was made was founded on evidence to that effect rather than on price or other factors over which the Government can exercise no control. While the recommendation of the Aluminum and Magnesium Division was to restrict exports of aluminum scrap to a considerably lower quota than 9,000 short tons in the 1955 second quarter, the ultimate decision was made by an inter-Departmental Advisory Committee on Export Policy, after careful evaluation of all factors, from the standpoint of a practicable Government-wide policy.

IMPACT OF ALUMINUM SCRAP EXPORT POLICY

The effects of the present aluminum scrap export policy on the aluminum smelting industry were reviewed by a committee member who protested the creation by Government action of artificial economic situations which, he said, interfere with the free operation of the private competitive enterprise system. He recalled that the present problem arose about 18 months ago when business conditions in Europe developed to a point where additional aluminum raw materials were required abroad to fill the needs of an expanding European economy. Since there was a substantial duty in most countries on the import of aluminum pig and ingot, and no duty on scrap aluminum, European consumers naturally sought scrap from the United States.

At that time, the domestic smelting industry was obliged to compete with European output of aluminum pig selling at 26 to 27 cents a pound, and, at the same time, keep its price on finished ingot in line with an established primary domestic pig price of 21 cents a pound. Because of the differential between domestic and world ingot prices, smelters were also economically unable to compete for scrap. As a result, smelters sought relief from the Government by requesting that restrictions be placed on the export of increasing quantities of scrap from the United States.

Reviewing recent developments, the committee member stated that about 5 months ago, when the domestic demand for aluminum increased and primary producers would no longer fill growing requirements of the ingot-consuming industries, smelters were again able to compete with foreign buyers of scrap aluminum thereby obtaining substantial additional quantities of raw materials. The price of secondary ingot moved from about 23- to a 30-cent level which accurately reflected world market conditions; namely, a 22 to 24 cents world market price for scrap and a 27 cents world market price for pig.

Creation of a more readily available supply of primary ingot by Government action has been one of the reasons for a reduction in the price of secondary ingot, however, the cost of scrap to smelters, and aluminum scrap exports, have risen. An artificial economic situation has thus developed, resulting in a squeeze on the smelting industry.

As a member of the industry, the committee member said, he was opposed to Government action bringing about artificial economic situations, especially at a time when such action is uncalled for and there is no national emergency. Increasing the available supply of metal and permitting a high level of scrap-aluminum export are prejudicial to the interests of a long-established industry and tend to subsidize domestic ingot-consuming industries and foreign economies at the expense of the aluminum-smelting segment. He particularly protested action taken without prior official consultation with members of the industry.

Mr. Erskine objected to this last statement, pointing out that the aluminum-smelting industry had been consulted and that the Division had made every effort to reduce quantitative export quotas on aluminum scrap. As for stockpile diversions, the decision was based on the total shortage of aluminum rather than on shipments or primary and secondary pig and ingot, he said.

DOMESTIC AND FOREIGN COMPETITION

The effect of deferring deliveries from stockpile placed the secondary metal industry in competition with the primes in supplying pig and ingot, a committee member stated; whereas primary producers' inventories had foremerly been depleted in the latter part of 1954 when extensive stockpile accumulations were being made, in the first quarter of 1955 the heavy demand for castings was met almost entirely by smelters because the primes had reverted to supplying their customers on a historical consumption pattern basis.

Smelters' backlogs of inventory are now depleted, another committee member added, asking whether relief can be expected from foreign competition for scrap, as well as from domestic competition from primary producers. In the past, a

number of smelters have been forced out of business, he pointed out, emphasing that the industry is essential in times of emergency. Furthermore, it is considered small business and as such is entitled to Government assistance for survival, he said. Foreign governments impose high duties and grant subsidies to protect their smelters against competition from United States producers while United States smelters are forced to compete both domestically and in world markets not only for sales but also for their supply of raw materials. Unless action is taken to either restrict scrap exports, or increase the supply of scrap, he said, the present situation can well lead to unemployment and more business failures in the smelting industry.

Recognition of the smelting industry.—The relative importance of the aluminum smelting industry to the overall economy and national defense should be borne in mind by BDSA and Government officials in formulating plans and making decisions with respect to the aluminum industry as a whole, committee members emphasized. They called attention to the volume of business represented by this segment of the industry, citing the fact that 1954 shipments by smelters exceeded other shipments of pig, ingot, and billets by more than 65 million pounds. Facts such as this, it was believed have been overlooked in the past by the Government, and action taken without adequate representation for smelters in matters dealing with the aluminum industry and industry problems has resulted in unsubstantiated rumors and incomplete or premature news accounts which have disrupted markets and caused erroneous assumptions to be made by and about the aluminum smelting industry.

EXPORT QUOTAS

Pointing out the downward trend of scrap aluminum exports in the past few months, Mr. John H. Kilby (Director, Materials Division, Bureau of Foreign Commerce) informed the committee members that the scrap aluminum export policy recommended by the Bureau of Foreign Commerce to the Interdepartmental Export Policy Committee had been even more restrictive than that of BDSA. However, numerous other Government agencies are also concerned in the decisions reached on export quotas, he reiterated.

Actual exports of aluminum scrap are not reaching licensing levels, Mr. Kilby also reported, and exports for the first half of April show a decline.

While domestic scrap is being exported at 22 cents a pound, it is returning in the form of secondary ingot at 25 cents a pound, committee members reported. This secondary ingot, or remelt scrap, is a few cents below that of domestic remelt scrap. Mr. Kilby asked for substantiating information on the possible source and volume of this foreign remelt ingot, which committee members offered to furnish, although the source may be questionable in view of unknown transshipments.

Price is admittedly a major factor in the available supply and disposal of scrap, and it presents a perpetual unsolved problem, a committee member observed, but other factors should also be taken into account, such as profit incentives, convertibility of currencies, etc. He suggested that a possible solution to the present problem might be to limit scrap aluminum exports on a more equitable basis such as a consumption ratio of scrap to pig. Thus, the drain on domestic scrap supply, as represented by the export quota of 3,000 short tons a month, would not be borne solely by the smelting industry.

Committee members also suggested that representatives of the aluminum smelting industry be consulted in the future prior to official determinations affecting the industry such as an open-ending of aluminum scrap export licensing or the establishment of future quotas.

Mr. Erskine assured the committee members of continued impartial treatment of all segments of the aluminum industry by BDSA and other Government agencies. He added that the composite views and recommendations of all industry advisory committees concerned will be given full consideration by the Aluminum and Magnesium Division in arriving at a Division recommendation when the aluminum scrap quota is reviewed for the 1955 third quarter and each subsequent quarter for which it is in effect.

SUMMARY OF COMMITTEE RECOMMENDATIONS

Committee members unanimously recommended:

1. That the Government curtail exports of aluminum scrap to not more than 1 million pounds per month, as recommended at the committee's last meeting April 29, 1954.

2. That, since scrap represents about 20 percent of the total aluminum raw material supply, and, since 6 million pounds per month represents the amount needed for export, the amount of scrap exported should not exceed 20 percent of the authorized total, or approximately 1,200,000 pounds per month.

3. That the conditions under which export quotas are established now exist and they constitute grounds for positive action in curtailing exports.

4. That in all future aluminum industry conferences or meetings dealing with the aluminum industry and industry problems, the aluminum smelting industry be adequately represented, on the grounds that smelters comprise a proportionately large segment of the entire industry and their views should be accorded equal voice and consideration in matters affecting them.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM PRODUCERS INDUSTRY ADVISORY COMMITTEE MAY 20, 1955

Harold C. Erskine, Director, Aluminum and Magnesium Division, Government presiding officer

Committee members:

*D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
*Frank L. Magee, Aluminum Company of America, Pittsburgh, Pa.
R. B. Caples, Anaconda Aluminum Co., New York, N. Y.
*D. A. Rhoades, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Thomas J. Ready, Jr., Kaiser Aluminum & Chemical Corp., Oakland, Calif.
*R. S. Reynolds, Jr., Reynolds Metals Co., Richmond, Va.
David P. Reynolds, Reynolds Metals Co., Louisville, Ky.

Other industry representatives present:

Sidney Blumenreich, Reynolds Metals Co., Richmond, Va.
Maxwell Caskie, Reynolds Metals Co., Richmond, Va.
H. C. McCord, Aluminum Corporation of America, Pittsburgh, Pa.
William Edmunds, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Ward Humphreys, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Elmer T. Lang, The American Brass Co., Washington, D. C.

Government representatives present:

Department of Commerce:
Charles E. Grim, Advisory Committee on Export Policy.
John H. Kilby, Director, Materials Division, Bureau of Foreign Commerce.
Virginia Torosan, Chief, Nonferrous Section, Bureau of Foreign Commerce.
Business and Defense Services Administration:
William A. White, Sr., Assistant Deputy Administrator.
Arthur W. Winston, Assistant Administrator.
William Barnes, Adviser on Stockpiling & Conservation.
George Elliman, Adviser on Foreign Activities.
Richard Blaisdell, Office of Public Information.
Aluminum and Magnesium Division:
H. C. Erskine, Director,
H. A. Frutig, Deputy Director.
A. A. Snow, Assistant Director.
Morris Bailkin.
Industry Advisory Committee staff:
Charles R. Hersum, Director.
Maria Rotondo, summary writer.

Other Agencies:
James P. Durkin, General Counsel's Office, Office of Defense Mobilization.
Edwin A. Harris, Director, Light Metals Division, Office of Defense Mobilization.
Edmund Getzin, National Resources, State Department.
Dr, T. C, May, Office of Assistant Secretary of Defense (S & L), Department of Defense.

*Present at meeting.

PURPOSE OF THE MEETING

The Aluminum Producers Industry Advisory Committee met on May 20, 1955, to discuss the following agenda: (1) Developments since meeting of March 7, 1955, (2) Effect of stockpile relief for the first 6 months of calendar year 1955, (3) Metal availability and requirements for the last 6 months of calendar year 1955, and (4) Stockpile recommendations for the last 6 months of calendar year 1955.

Mr. Harold C. Erskine, Director, Aluminum and Magnesium Division, Business and Defense Services Administration, was the Government presiding officer.

CALL TO ORDER

In opening the meeting, Mr. Erskine announced the addition of a new member on the committee (Mr. R. B. Caples, president, Anaconda Aluminum Company, New York City) and introduced Mr. Elmer T. Lang, vice president of the American Brass Co., Washington, D. C., who was representing Mr. Caples at this meeting. Mr. Erskine stated that the main purpose of the meeting was to obtain from the committee the best possible advice for the benefit of both industry and Government (specifically, the Office of Defense Mobilization to which any data submitted to BDSA would be transmitted for use in reaching ultimate decisions on stockpile questions).

DEVELOPMENTS SINCE MEETING OF MARCH 7, 1955

Mr. Erskine reviewed events since the last meeting of the group on March 7, 1955, commenting that concern over the aluminum supply-demand situation lessened for a short time after metal relief was granted by ODM for the 1955 second quarter. However, around May 1, demands of consumers increased and the situation worsened to the extent that complaints of metal shortages reached the House Small Business subcommittee which is now holding hearings on the primary aluminum supply problem.

Referring to tabulations entitled, "U. S. Exports of Aluminum Scrap, 1953–55" and "Aluminum Supply·1950–56 and Demand 1950–1st Quarter 1955" (copies of which had been distributed to the committee members), Mr. Erskine pointed out that the latter table was a revision of similar data presented at the March 7 meeting on sources of supply and shipments to consumers. Domestic primary production for 1955 is now estimated, he said, at 3,059 million pounds instead of 3,044 million pounds, or an increase of 15 million pounds over the March estimate. Imports are estimated at about the same figure as the March total and scrap availability is up from previously estimated totals.

Observing that first quarter 1955 shipments (939 million pounds) showed an increase over previous estimates (875 million pounds) of over 60 million pounds, Mr. Erskine expressed the opinion that primary aluminum producers will be judged, both by the Government and nonintegrated users, on the basis of deliveries to consumers of pig, ingot, and billet in the first 8 months of the 1955 calendar year. Shipments will be expected to equal those in the same 1954 period plus the full tonnage of metal relieved from stockpile delivery, he said. From the information furnished to BDSA weekly by producers, the Aluminum and Magnesium Division has determined that, as of May 14, 1955, slightly over half of that goal has been met, with a 2-week lag in deliveries for the first two quarters of 1955, he added.

In conclusion, Mr. Erskine asked the committee members to consider in their discussion the following questions, based on the assumption that no unusual interruptions to production, including power availbaility, will occur.

1. What are present estimates of total shipments for 1955?
2. Is there any change in the previous recommendation of the committee, or are there further recommendations, with regard to the aluminum scrap export quota?
3. What recommendations are suggested by the committee for stockpile relief for the balance of 1955?
4. How does the committee suggest that metal relieved from stockpile delivery be distributed?

Discussion.—An industry representative reported on a recent trip to the west coast to look over the current economic situation for his company. He said he had found nothing but optimism all along the way which was somewhat disconcerting. He suggested approaching the questions raised by Mr. Erskine by reviewing estimates of both metal availability and deficits made at the last committee meeting and then revising them to determine probable shipments and

deficits for the remainder of the calendar year. In the face of the revised deficit estimate, the committee could then proceed to consider making recommendations for stockpile relief, he suggested further.

METAL AVAILABILITY AND REQUIREMENTS FOR THE LAST 6 MONTHS OF 1955

Based on estimated industry shipments of 3,500 million pounds for the 1955 calendar year, and on the assumptions that there would be no changes in either stockpile goal or aluminum scrap export quotas, a deficit of 255 million pounds was found at the March meeting, the committee member continued. Assuming that 1955 first quarter shipments of 939 million pounds will be repeated for the remaining quarters of the calendar year, actual deliveries by the end of the fourth quarter would be approximately 3,750 million pounds, and the estimated deficit would be 511 million pounds. Stockpile relief which has been granted reduced this deficit by 150 million pounds, but a further reduction in the stockpile call for the third quarter by at least 200 million pounds will be required to make up the revised deficit, discounting added metal availability from reactivated units at Badin and Massena.

While the demand for aluminum pig and ingot has increased sharply, it must be recognized, the committee member added, that for every consumer who starts with raw pig and ingot, there are probably 10 or 15 more who start with other mill products. Deferral of aluminum deliveries to stockpile discriminates against users of intermediate products such as reroll stock, slab, sheet, or plate because the more metal is made available, the more demand for primary aluminum products rises. Since a departure from established selling patterns also discriminates against long-time customers of primary producers, his company has set a 100 norm for pig and ingot shipment, based on 1953 and 1954 orders, and has voluntarily increased the base to 125. In addition to continuing shipments of available metal on this basis, the company would also be willing to provide the intermediate stock required by producers of competing forms and mill products, as well as supply users of sheet and other products which, because of size limitations, are not available from other manufacturers.

Describing the present primary aluminum shortage as a probable short-lived one which is sure to adjust itself after annual labor issues are settled and vacation periods ended, the committee member recommended strongly that temporary relief be granted by reducing the third quarter stockpile call by at least 200 million pounds. Such action by the Government at this time will assist in returning the aluminum market to normal both quantity- and price-wise, and put out the current conflagration, he said. He attributed the present situation to adjustments in inventories and pipelines which have been taking place, recommending further that primary aluminum supply should be balanced with demand periodically by quarter.

Another representative of the same company supplemented these remarks by pointing out that all manufacturers have been taking protective measures against possible work stoppages and a definitely expected price increase, including integrated primary aluminum producers who are as anxious to replenish their inventories as other segments of the industry. Present optimism is not expected to continue indefinitely, he added, particularly in view of continually rising production in Norway, Germany, Austria, France, and Spain and the enormously increased aluminum imports expected from Canada in 1957. Whereas European producers are planning on future American markets, United States aluminum producers are not eager to invest in additional capacity until they have survived the critical 1955 third quarter and are assured of a continuous, uniform demand.

Uncertainty about the third quarter was also expressed by another committee member who pointed out that last year more primary metal was put into stockpile than was called for and that demand was low. He also ascribed the current excess of demand over previously estimated supply to "pipelining" by users and to the fact that demand rises whenever a shortage of material or a price rise is indicated. While the present shortage is considered of a temporary nature, from a long-range view, he believed, another expansion of capacity will be necessary over the next 5 to 10 years.

Two-thirds of expanded capacity output (approximately 200 million pounds) should be made available for consumption during the remainder of the year to ease the present situation, committee members urged. They concurred that the temporary shortage can be relieved by reducing the stockpile call for the third quarter in this amount.

Recommendations on aluminum scrap export quota.—Emphasizing the need for continued restrictions on the exportation of aluminum scrap, committee members

unanimously endorsed a recent recommendation of the Aluminum Smelters Industry Advisory Committee that the Government curtail exports to a maximum of 1 million pounds per month.

Licensing is limited to an annual rate of 72 million pounds, or 18 million pounds per quarter, Mr. Erskine explained. Under this quota, Miss Virginia Torosan (Chief, Nonferrous Section, Bureau of Foreign Commerce) reported, 7,222,000 pounds have been licensed during the second quarter, through May 20, 1955. While these licenses encompass all requests against the second quarter quota, some carryover of shipments will occur as a result of the 3-month lifetime for all export licenses. Actually, however, exports of aluminum scrap have been at a very low level in the past 2 months, she said, and are the lowest since January, 1954.

STOCKPILING RECOMMENDATIONS

Commitments under GSA contracts between the Government and the 3 primary producers for the sale of pig, ingot, and billet to the stockpile provide for the disposal of expanded capacity output in 3 equal portions to the stockpile, the producers, and nonintegrated consumers, a committee member explained. If authority can be granted to sell the one-third stockpile set-aside to consumers, including reroll and redraw customers (who consider themselves ingot, pig, and billet users), producers could then tender any unsold portion of expanded capacity output to the stockpile, he said, and any unfilled demand, after two-thirds of expanded capacity output is made available, can be met from the remaining one-third set-aside for producers under the contracts, if necessary. This step was considered inequitable by other producers, however, who pointed out other uses for this portion, such as additional capacity expansion and sale to historical customers. Moreover, some demand is being met from the producers' portion, 1 producer said, reporting that his company contemplates shipping pig and ingot to the stockpile and to independents well over 100 percent of expanded capacity over the January–October 1955 period. It was his belief that producers have far exceeded minimum requirements under stockpile supply contract obligations.

Sale of two-thirds of expanded capacity output to nonintegrated consumers in the third quarter, provided first- and second-quarter stockpile deliveries can be extended to October 31, 1955, should make up the estimated deficit for 1955, it was believed, because additional production from new plants should increase available supply. For example, one committee member reported that his company's production will be augmented by several new potlines in the last half of 1955, one of which will be ready by July 1 and is expected to produce 20,000 tons by the end of the year.

Committee members concurred that capacity is potentially adequate to meet all demands after the critical third quarter is over, despite recent charges before a congressional committee that shortages exist and distribution is at fault. But, they emphasized, the producing industry expects to fulfill its obligations under the stockpiling contracts and does not wish to upset present contractual arrangements with the General Services Administration.

An industry representative asked what alternative action, other than stockpile deferral, can be taken to ease aluminum shortages claimed by small users. Mr. Edwin A. Harris (Director, Light Metals Division, ODM) replied that, by virtue of inability to meet stockpile requirements, a shortage might be implied, thus leading to allocations of material, or controls.

In reply to another question about the prospects of favorable action by ODM on a request for the deferral of stockpile deliveries for the third quarter, and deferral of 9 months' total shipments through October 31 (calculating the extended lag in deliveries for the second and third quarter under stockpile contract commitments), Mr. Harris stated that, while the 1955 deficit estimated by the industry approximates the stockpile call planned for the last 6 months of 1955, he did not know what decision will be made by the ODM Director, Dr. Arthur S. Flemming.

If calls are to be made for aluminum for the stockpile in the 1955 third quarter, the committee recommended that they be limited to permit increases in the shipment of pig, ingot, and billet to non-integrated users.

Distribution of metal relieved from stockpile delivery.—A detailed discussion followed on the position which the industry should take and what recommendations the committee might make to BDSA for transmittal to ODM. There was some difference of opinion on the manner in which metal relieved from stockpile delivery in the third quarter should be distributed, and several alternate plans were suggested.

One industry representative stated that strict conformance to existing stockpile contracts was most desirable in view of the fact that they represent a great deal of time and effort on the part of GSA and the producers in reaching mutually satisfactory agreements. It was his opinion that, although obligations under these contracts should be carried out implicitly, in selling metal made available by stockpile deferrals, the company should have the option of either offering residual material to the stockpile, after it is properly advertised for sale and public demand is filled, or using it to meet mill product demand.

Another industry representative, on the other hand, believed that primary producers should tender to the Government any residue of output from expanded capacity over and above ingot sales to nonintegrated producers and to the stockpile under GSA contracts. He pointed out graphically that the real test of performance by producers is in the percentage of material coming from their one-third portion which is supplied to nonintegrated users. To clarify the present aluminum supply-demand situation, he stressed, the industry should be consistent in presenting facts and should consider the problem from the viewpoint of metal availability over and above contractual obligations.

Unless ODM can be furnished with factual and unbiased information, a clear case cannot be made for the producing industry, another committee member agreed. Such recommendations need not violate individual company principles with regard to contractual obligations nor set a precedent for future distribution policy, as feared, he added. He was personally in favor of committing shipments for his company in the third quarter in a specified amount based on past deliveries, regardless of distribution under stockpiling contracts. He also reiterated a recommendation made at the previous meeting that the Government (ODM) carefully consider and make a prompt decision on renewal of the Massena-Badin contract which, he believed, would be to the Government's advantage and would increase available supply. Production planning cannot commence, he said, until such decision is made.

It was also suggested that each producer arrive independently at an estimate, to be submitted confidentially to the Aluminum and Magnesium Division, of what his company can ship in pig, ingot, and billet in the third quarter ex-contractual obligations, assuming stockpile forgiveness in the third quarter and extension of deliveries under stockpile contracts through October 31, 1955. To assist them in determining what amounts could be committed for delivery to independent and small users (nonintegrated consumers) in the third quarter, committee members asked for the Division's figures on total shipments of primary aluminum during 1953 and 1954, including toll and stockpile shipments. They also asked whether records were kept by the Division of reports of aluminum shortages by consumers. Mr. Arthur A. Snow (Assistant Director, Aluminum and Magnesium Division, BDSA) informed them that about 150 individuals have come to the Division since the first of the year in this connection and that numerous additional reports are being made daily to the Senate. Mr. Erskine added that shortages are being reported mainly by secondary aluminum consumers—foundries, diecasters, and extruders—and that all rerollers have also been heard from by the Division.

SUMMARY OF COMMITTEE RECOMMENDATIONS

The Aluminum Producers Industry Advisory Committee unanimously recommended that: In order to provide an immediate increase in deliveries of pig, ingot, and billet to nonintegrated customers:

1. The third-quarter stockpile call be reduced by 200 million pounds.
2. Shipments against first- and second-quarter calls should be extended to October 31, 1955.

In making this recommendation, the aluminum producers proposed shipments of pig, ingot, and billet to nonintegrated users under its obligations pursuant to expansion contracts with GSA, and from other production, which, together with shipments to the national stockpile, are approximately 85 percent of the capacity of the industry's expanded facilities under Government supply contracts.

The proposal, according to data submitted to Mr. Erskine, Director of the Aluminum and Magnesium Division, would result in increasing pig and ingot shipments to nonintegrated users in the first 10 months of 1955 by 75 percent over the corresponding 1954 period. Furthermore, shipments in the third quarter 1955 would increase 30 percent over second quarter 1955 shipments.

The committee also recommended that the Government curtail further the export of aluminum scrap to foreign countries, and restrict such exports to 1 million pounds per month, as suggested by the Aluminum Smelters Industry Advisory Committee.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

MINUTES OF THE MEETING OF PRIME ALUMINUM PRODUCTS INDUSTRY ADVISORY COMMITTEE, JUNE 1, 1955

H. C. Erskine, Aluminum and Magnesium Division, Government presiding officer

Committee members:
*D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
*W. E. Sprackling, Anaconda Wire & Cable Co., New York, N. Y.
Terry W. Kuhn, Bohn Aluminum & Brass Corp., Detroit, Mich.
*A. P. Cochran, Cochran Foil Co., Louisville, Ky.
*Lawrence N. Brile, Fairmont Aluminum Co., Fairmont, W. Va.
*Leo M. Harvey, Harvey Machine Co., Torrance, Calif.
S. S. Inch, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
*Leonard Starr, Michael Flynn Manufacturing Co., Philadelphia, Pa.
Frank R. Nichols, Nichols Wire & Aluminum Co., Davenport, Iowa
*John W. Douglas, Republic Foil & Metal Mills, Inc., Danbury, Conn.
*Harold C. Wilson, Revere Copper & Brass Inc., New York, N. Y.
David P. Reynolds, Reynolds Metals Co., Louisville, Ky.
*Robert P. Stranahan, Stranahan Foil Co., South Hackensack, N. J.
*George A. Ginsburg, United Smelting & Aluminum Co., New Haven, Conn.
*Arthur Lowery, Wyman-Gordon Co., Worcester, Mass.
*Lewis M. Burt, Youngstown Manufacturing, Inc., Youngstown, Ohio

Other industry representatives present:
C. M. Adams, Bohn Aluminum & Brass Corp., Detroit, Mich.
R. G. Boyd, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
James M. Stuart, Reynolds Metals Co., Louisville, Ky.

Government representatives present:
Department of Commerce:
Lothair Teetor, Assistant Secretary for Domestic Affairs.
Virginia Torosan, Bureau of Foreign Commerce.
Business and Defense Services Administration:
William A. White, Sr., Assistant Deputy Administrator.
Arthur W. Winston, Assistant Administrator.
William Barnes, Stockpiling and Conservation, BDSA.
George Elliman, Adviser on Foreign Activities.
Harold C. Erskine, Director, Aluminum and Magnesium Division.
H. A. Frutig, Deputy Director, Aluminum and Magnesium Division.
A. A. Snow, Assistant Director, Aluminum and Magnesium Division.
Morris Bailkin, Aluminum and Magnesium Division.
E. G. Fahlman, consultant, Aluminum and Magnesium Division.
Richard Blaisdell, Office of Public Information.
Charles R. Hersum, Director, Industry Advisory Committees Staff.
Maria Rotondo, summary writer.

Other agencies:
Edwin A. Harris, Director, Light Metals Division, Office of Defense Mobilization.
James P. Durkin, Assistant General Counsel, Office of Defense Mobilization.
Dr. T. C. Nay, Office of Assistant Secretary of Defense (Supply and Logistics), Department of Defense.

PURPOSE OF THE MEETING

The Prime Aluminum Products Industry Advisory Committee met on June 1, 1955, to review current and future aluminum supply and demand, discuss stockpile requirements, and recommend advisable Government action.

Mr. H. C. Erskine, Director, Aluminum and Magnesium Division, BDSA, was the Government presiding officer.

OPENING REMARKS

Referring to the present aluminum shortage, which necessitates a reappraisal of supply-demand estimates made last March, Mr. Erskine recalled that, at that time, the indicated shortage resulted in a 150-million-pound reduction in stockpile

*Present at meeting.

calls for the first half of 1955. Aluminum thus made available for commercial use is still insufficient, however, to meet all demand, and another estimate of aluminum supply demand for the remainder of the year is therefore needed. For this reason, several meetings have been held by BDSA with various segments of the aluminum industry, including prime producers, smelters, and consumers to determine what remedial recommendations might be made by the Department of Commerce to the Office of Defense Mobilization.

Mr. Erskine suggested that the Committee members advise BDSA of prospective demand in the 1955 third and fourth quarters, as related to the first and second quarters, and make any pertinent recommendations. He called attention to several tabulations (copies of which were distributed to the Committee) showing total aluminum supply for 1950 through 1954, estimated supply for 1955–56, actual shipments to consumers from 1950 through the first 1955 quarter, and domestic aluminum scrap exports to various destinations during 1953–55.

CURRENT AND FUTURE ALUMINUM DEMAND

Optimistic outlooks were expressed by individual Committee members who concurred, in general, that the present high demand for prime aluminum products will continue steadily through the third quarter of 1955 and into the fourth quarter. They said that the third quarter is expected to be as good as the second, judging from forward orders which are coming in farther in advance of shipment than at any other time in the industry's recollection. Moreover, as much as can be determined, customers are not buying for inventory.

One Committee member stated that his company is expanding capacity and needs more metal. Inquiries have been made of possible additional sources of supply without encouraging response, he said. In view of the prospects for a limited supply, it was his view that release of an adequate quantity of aluminum from stockpile delivery in the third quarter would increase the metal supply, improve the present shortage, and avoid the imposition of undesirable Government controls. Greatly increased demand can also be met by a third round of aluminum capacity expansion, he believed. Asked what percentage of anticipated increased demand can be attributed to new productive facilities, he offered to forward this information to Mr. Erskine within a few days.

Foil producers also reported an increased demand in each successive quarter, which is expected to continue. One industry representative said that demand for aluminum foil will continue to grow over the years. He expressed the hope that an adequate supply of metal will be assured either from substantially reduced stockpile calls or further expansion in prime aluminum productive capacity.

Smelters are operating from hand to mouth, according to another industry representative. He acknowledged that some of the prime aluminum producers has made a fair and equitable distribution of metal released from stockpile delivery. However, he foresaw no letup in demand throughout the remainder of the year, adding that his company had developed, over a period of years, a method for increasing production, but had to drop it because of a limited supply of raw materials, rather than lack of machinery or equipment which is already in place.

Rod and bar users are not faced with the same supply problem as other segments, another Committee member stated. Demand, however, is expected to continue at about the same rate as in the first half of 1955, assuming sustained automotive industry operations.

Other Committee members offered similar opinions that aluminum supply has been insufficient and that business appears to be even more promising in the third quarter than it has been.

Referring to a reported increase in the number of domestic extruders from 8 in 1947 to 104 in 1955, and a predicted 120 in 1956, a Committee member cited that fact as an indication of the inevitable, continuous increase in aluminum demand. His company, as well as others, have recently expanded their facilities but are unable to increase productivity as planned because of raw material shortages. In addition, they must accept orders on a selective basis, he said.

Assuming sufficient aluminum were available to operate all plants, Mr. Erskine said, could the industry, especially extruders, run full time at capacity, or continue at the present rate for the remainder of 1955?

Committee members reiterated their prediction that a persistent strong demand is expected through the third quarter and that, while some space is open on order boards, this is due to lack of materials rather than lack of business. Assuming no major work stoppages or other unexpected occurences in the industrial economy, third-quarter production of prime aluminum products should equal, and possibly

surpass, output in the first half of 1955, a Committee member stated. He based this conclusion on advance sales and continuing orders.

Another Committee member added that his company has been operating at full capacity for some time and has succeeded in augmenting its supply of aluminum slightly. Although vacation shutdowns averaging 1 week are expected to cut production about 8 percent in the third quarter, military orders and new equipment will more than offset this decline. Production in the fourth quarter, he said, is expected to be up about 15 to 18 percent, mainly as a result of an 18 months' expansion program aimed at increasing capacity by at least 35 percent because of growing aluminum foil uses. Prime aluminum producers, he added, have an obligation to fill both current consumer requirements and anticipated long-range demand. If stockpile deferrals are necessary to meet these obligations, then relief should be forthcoming from the Government in the absence of immediate defense needs. Contrary to common belief, he said, customers in general have not been storing metal. In cases where hoarding is discovered, producers are dealing with the problem by extending deliveries, holding shipments to minimum quantities, and other voluntary industry controls or restraints.

Requirements for primary aluminum are much heavier today than a year ago due to expanded facilities and increased productivity by the industry, another committee member stated. If sufficient metal is made available in the last half of 1955, and the first two quarters of 1956, he said, a marked increase in output will occur. Further deferrals of stockpile deliveries are needed, however, as a temporary measure. Moreover, there appears to be an inconsistency in stockpiling primary aluminum and simultaneously permitting unlimited exports of aluminum scrap which could otherwise be utilized by foundries, diecasters, and smelters. While aluminum scrap exports do represent a relatively insignificant proportion of total aluminum supply, they act as a trigger on the delicately balanced supply and demand. The present quota of 9,000 tons for the second quarter cannot be considered very restrictive, he said, and further limitations on aluminum scrap exports should be made.

Public utility demand.—Continuing shifts in demand for metals used in transmission and distribution communications cables affect overall aluminum demand by wire and cable producers, a committee member reported. Since construction of transmission and distribution systems represents a seasonal demand, such demand will be greater in third and fourth quarters than in the first half of 1955. A continuous greatly increased demand is also indicated by the remarkable growth in public utilities which is taking place, he said.

Consumer shipments.—Mr. Erskine asked the committee's views on the possibility that third- and fourth-quarter shipments will equal or exceed the first half of 1955, thus bringing total shipments to consumers for the year to approximately 3,756 million pounds. The aluminum industry consensus is, he added, that fourth-quarter demand will at least equal that of the second quarter, and any difference of opinion centers on the third quarter because of normal vacation slowdowns and the summer seasonal slump in production.

Casters expect to increase production in the third and fourth quarter over first- and second-quarter output, despite the summer decline, an industry representative stated. He reported a 32-percent rise in demand for the first 4 months of this year, as compared with the same period last year, and attributed increased demand in the casting industry to expanded facilities and the development of new lines of business.

Committee members discussed fully the general outlook for overall aluminum shipments to consumers during the third and fourth quarters, evaluating the effect of inventory buildup and consumption, scrap exports, and availability of prime metal, on total actual shipments up through the 1955 first quarter, when 939 million pounds were shipped. They also considered estimated shipments for the remainder of the year.

One view was that, as soon as certain issues in the economy are resolved, such as labor contract renewals, expected price increases, and inventory buildup in anticipation of either shortages or price rises, demand for raw materials will weaken and taper off in the third quarter. Heavy stocks of finished goods in manufacturers' inventories could very well meet the demand, it was believed. Other committee members disagreed with this viewpoint, however. They anticipate at least a 5-percent increase in third-quarter shipments over the first quarter, or about 50 million pounds, based on current orders and commitments but barring major strikes in the automotive or other industry.

Asked what they estimated total shipments for 1955 would be, one committee member believed that total shipments would exceed 3,900 million pounds and

all the other members thought the total would be between 3,756 million and 3,900 million.

Aluminum scrap exports.—Mr. Erskine explained that the aluminum scrap export quota had been established by an interdepartmental advisory committee on export policy at 9,000 tons for the 1955 second quarter. While the recommendation of the Aluminum and Magnesium Division had been for a considerably lower quota, a number of circumstances had to be considered by that committee in reaching its final decision, he said. A new quota is established for each successive quarter based in part on advice received from the Aluminum and Magnesium Division which in turn seeks the advice of the affected industry, Mr. Erskine added.

To supplement data on a table entitled "United States Exports of Aluminum Scrap, 1953–1955," copies of which were distributed to the committee, Miss Virginia Torosan, Bureau of Foreign Commerce, reported that final figures for April exports were 3,382,000 pounds as shown on the table in a preliminary survey. Licensing against the second-quarter quota of 18 million pounds has reached 6,300,000 pounds, leaving an unlicensed balance of 11,700,000 pounds and indicating a definite decline in foreign demand for United States aluminum scrap, she said. Licenses issued to date include all requests against the second-quarter quota and expire on June 6, 1955. Asked whether the decline might not be attributable to domestic price, Miss Torosan replied that it could very well be, however, information has been received that the aluminum industry in Western Germany has been completely reconstructed and additional European facilities have been coming in during the past 6 months, tending to lessen the demand for United States scrap.

CURRENT AND FUTURE ALUMINUM SUPPLY

Recommendations made by the Aluminum Producers Industry Advisory Committee at its meeting on May 20, 1955, were reviewed by a committee member who serves on both committees. His company expects an additional minimum production of 130 million pounds in 1956 from expanded smelting facilities and new lines which will be in by the end of the first 1956 quarter, depending on continued power supply. Two plants, however, are not dependent on hydraulic electric power since they use gas or lignite to assure continued production.

Completion of expanded facilities by another producing company is expected to bring an additional annual production of 50 to 60 million pounds, and expanded Canadian facilities should increase the supply by 180,000 tons annually, it was revealed. Over all, expansion which is underway in the North American continent alone should eventually increase annual capacity for primary aluminum production by about 750 million pounds, an industry representative pointed out. European capacity has also expanded and producers will be seeking United States markets, while Canadian production has reached the stage where producers may well become competitors for the United States market since the United States is unquestionably the most highly industralized Nation in the world at present. Other committee members did not concur in the belief that Canadian producers will reach the compteitive stage before 1959, however, as they have been notified that additional metal from expanded capacity will not be forthcoming to United States purchasers before that time. Offers for purchase of future production are being taken, however.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Since indications are that a continued strong demand for prime aluminum products in excess of metal availability will occur in the second half of 1955, thus curtailing anticipated production, committee members concurred in the following recommendations.

1. That the Government make no call for aluminum stockpile in the third quarter of 1955.
2. That exports of aluminum scrap be limited to 1 million pounds per month.
3. That shipments for Government stockpile account due to be made by August 31, be extended until the end of October 1955.
4. That the Badin-Massena aluminum producing units be reactivated by extension of Government contract for another year.

In addition, a committee member proposed that 10 percent of the quantity of any stockpile relief be allocated to GSA by the prime producers for distribution by the General Services Administration to hardship cases. If GSA does not distribute the material 45 days before the 1st day of the month of production, the

metal is to revert to the prime producer for distribution. This was not supported by any other member.

DATE OF NEXT MEETING

The committee recommended that another meeting be held early in August to review fourth-quarter aluminum supply-demand estimates.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM PRODUCERS INDUSTRY ADVISORY COMMITTEE, AUGUST 23, 1955

W. J. Edmunds, Jr., Director, Aluminum and Magnesium Division, Government presiding officer

Committee members:
*D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
*Frank L. Magee, Aluminum Company of America, Pittsburgh, Pa.
R. B. Caples, Anaconda Aluminum Company, New York, N. Y.
*D. A. Rhoades, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
Thomas J. Ready, Jr., Kaiser Aluminum & Chemical Corp., Oakland, Calif.
R. S. Reynolds, Jr., Reynolds Metals Co., Richmond, Va.
*David P. Reynolds, Reynolds Metals Co., Louisville, Ky.

Other industry representatives present:
H. C. McCord, Aluminum Company of America, Pittsburgh, Pa.
Elmer Lang, American Brass Co., Washington, D. C.
Ward Humphreys, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
M. M. Caskie, Jr., Reynolds Metals Co., Richmond, Va.

Government representatives present:
Department of Commerce:
John H. Kilby, Bureau of Foreign Commerce
Business and Defense Services Administration:
William A. White, Sr., Assistant Deputy Administrator
George Elliman, Adviser on Foreign Activities
Richard Blaisdell, Office of Public Information
Aluminum and Magnesium Division:
W. J. Edmunds, Jr., Director
H. A. Frutig, Deputy Director
A. A. Snow, Assistant Director
Morris Bailkin
Industry Advisory Committee staff:
Charles R. Hersum, Director
Maria Rotondo, Summary Writer
Other agencies:
J. P. Durkin, Assistant General Counsel, ODM
B. K. Slaughter, Chief, Light Metals Division, ODM
Fred W. Witt, Emergency Procurement Service, GSA

PURPOSE OF MEETING

The Aluminum Producers Industry Advisory Committee met on August 23, 1955, to discuss the following subjects: (1) Developments Since Meeting of May 20, 1955, (2) Effect of Stockpile Relief for the First Three Quarters of 1955, (3) Metal Availability and Requirements for the Fourth Quarter of 1955 and First Quarter of 1956, and (4) Recommendations for Stockpile Deferral for the Fourth Quarter of 1955.

Mr. W. J. Edmunds, Jr., Director, Aluminum and Magnesium Division, Business and Defense Services Administration, presided.

OPENING REMARKS

Mr. Edmunds thanked the committee members for their time and effort in attending the meeting and for giving the Government the benefit of their knowledge and experience. He reviewed the rules governing the establishment of industry advisory committees and the conduct of meetings, reading from a copy

*Present at meeting.

of a letter dated October 19, 1950, addressed by the Department of Justice to the Secretary of Commerce, suggesting requirements which should be met in order to minimize the possibility of violation of the antitrust laws.

Mr. Edmunds also noted that minutes of meetings are kept in summary form. He explained that comments by industry representatives are reported anonymously and those of Government representatives are attributed to the speaker.

Reporting on a meeting of the Aluminum Smelters Industry Advisory Committee held the previous day, Mr. Edmunds said the members of that committee felt business will be approximately 15-percent greater in the fourth quarter than in the third quarter of 1955. Their recommendations were: (1) That there be no stockpile call in the fourth quarter, (2) that aluminum scrap exports be limited to 1,500 tons (4th quarter, 1955) and, if additional quantities are required for export that they be taken from primary metal supply, and (3) that license effectiveness be limited to a maximum period of 90 days (export shipment to occur within 30 days after the quarter in which the license is issued). To date, approximately 1,000 tons have been licensed for export in the third quarter, Mr. Edmunds added. However, most licenses are usually taken up in the final days of a quarter, and at present it is roughly estimated that 4,500 tons licensed for export in the second quarter of 1955 have not as yet been shipped.

DEVELOPMENTS SINCE MAY 20, 1955, MEETING

Mr. Edmunds summarized major developments in the aluminum industry since the May 20, 1955, meeting of the committee. Since all the committee members were aware of the recent congressional committee hearings in connection with charges of aluminum shortages and of the Aluminum and Magnesium Division activities, Mr. Edmunds said he would confine his remarks to a review of metal shipments.

Shipments to nonintegrated users for the first 7 months of this year were 173 percent of the metal distributed to nonintegrated users in the first 7 months of 1954, Mr. Edmunds stated. From information available to the Division, it can be assumed that requirements of nonintegrated users for the third quarter of 1955 will either be met or exceeded. The Division is interested, he said, in knowing what the industry estimates total consumption will be in the third and fourth quarters. Shipments rose from 939 million pounds in the first quarter of 1955 to 1,008 million pounds in the second quarter, he noted, adding that the aluminum supply will be augmented by production from the new Anaconda smelter which was recently opened.

METAL AVAILABILITY AND REQUIREMENTS

Current supply-demand situation.—In the figures furnished to a congressional committee, third-quarter shipments were estimated at 1,050 million pounds, and overall supply at 1,114 million pounds, a committee member recalled. Fourth-quarter shipments should approximate those in the third quarter, because of delivery extensions, he said.

Despite a former belief that "incentive" buying would stop after price fluctuations and labor uncertainties settled down, such is not the case, the committee member reported. Demand continues heavy with no prospects for a letdown in virtually any product, he said. Moreover, pressure on the primary aluminum supply is increased by shortages in other metals such as steel, copper, and nickel. Uncertainties of a copper supply, for instance, have caused many copper and brass mill producers to enter the aluminum industry on a large scale. Total demand for primary aluminum in 1955 is expected to reach about 4.1 billion pounds, according to company polls and market analyses, several committee members reported.

Because stockpile relief has not eased the pressure on aluminum supply and re-melt prices are still higher than primary prices, it was recommended that (1) the stockpile call for the fourth quarter of 1955 be deferred entirely, (2) aluminum scrap exports be reduced drastically or eliminated entirely, and (3) a date be set for the next committee meeting early in November in sufficient time before the first quarter of 1956 to again review the effects of stockpile deferral, if granted for the 1955 fourth quarter. The effects of other activities, such as those of the automotive industry, on the economy can also be appraised at that time in relation to the primary aluminum supply-demand outlook for 1956.

The metal supply in the last quarter of this year may be affected by a power shortage in the Northwest, where there is some concern about lack of rainfall, although current indications are that 1955 will be a median year, a committee member stated.

Another industry representative, whose company has recently opened its first potline, reported that a second potline is expected to come in the latter part of next month and the plant hopes to be up to capacity by the first of next year. Asked whether he believed the present trend in converting copper and brass mills to aluminum production is a continuing or temporary one and whether any market surveys have been conducted by the copper and brass industry to determine the extent of such conversions, he replied that, while a great many changeovers are temporary, he really did not know to what extent the aluminum supply might be affected by an increased drain on it from converted mills. Both copper and aluminum have a proper place in the economy, he added, pointing out that steel is a greater competitor with aluminum than copper.

Long-range supply-demand outlook.—Primary aluminum producers, contrary to accusations that requirements are deliberately understated, are attempting to make the best possible estimate of future demand so that the industry may be prepared to supply all needs, a committee member stated. In a company survey of metal distributors, he said, covering some of the largest United States suppliers of various metal products, including steel, stainless steel, nickel, brass, and aluminum, expected demand for copper and brass products and aluminum in 1960, assuming a current index of 100, ranged from 90 to 110 for copper and brass and from 150 to an amazingly optimistic reply by one distributor of 300 for aluminum.

Another industry representative stated that he noticed, in referring to objective estimates of the prospective market for aluminum in 1960, which are continually made for his company by a group of market experts, the tendency has been, since 1950, to estimate low future requirements when current business is bad and higher forward demands in a short market, with wide variation. In a 6-month study made by an outside management engineering firm, estimated requirements for 1960 totaled 4.6 billion pounds, he said, while from a more recent survey of actual shipments to customers 1960 requirements were estimated at 5.5 to 5.8 billion pounds, depending on the availability of aluminum.

EFFECT OF STOCKPILE RELIEF

Several major Government objectives can be accomplished by continuing to grant relief from stockpile deliveries to the aluminum producing industry, committee members maintained. Primarily, industry will have an opportunity to continue its expansion of capacity, which has almost doubled since World War II, so that stockpile goals will eventually be met with greater ease. Second, high civilian consumption of aluminum products can be maintained in the long-range future, if the producing industry is given several years' lead time for growth. Finally, stockpile relief acts as an incentive to capacity expansion and encourages the development of many small businesses which comprise a large number of the aluminum producing industry's principal customers.

An industry representative recalled a special ODM meeting held last February at the request of aluminum producers because of an industrywide feeling that complete deferral of stockpile deliveries would encourage industry growth and aid the entire economy. Since the suspension of stockpile calls, he said, several producers have enlarged their plants, and the entire industry has demonstrated its ability to expand capacity very rapidly to meet any foreseeable emergency, as well as fill civilian demand. Moreover, expanded capacity has kept pace with the ever-increasing civilian demand. Enforcement of stockpile commitments at this time would seriously cripple the initiative of private industry to expand and contribute to "fear" buying, he said.

Referring to an ODM announcement that aluminum stockpiling would be resumed in the fourth quarter of 1955, Mr. Edmunds pointed to the fact that, although civilian demand is greater than the supply now available, very few companies, if any, are completely out of metal or have been forced to reduce employment because of an aluminum shortage. In the absence of any distress cases and in view of certain quantities of aluminum which will be delivered to the stockpile in the third quarter, the Aluminum and Magnesium Division asked the committee whether a moderate stockpile call would result in serious injury to any segment of the aluminum industry.

Supporting a contention that it would be unwise to call any quantity, a committee member pointed to the many new uses and planned uses for aluminum, such as insulation wrappings, automobile grills and hub caps, instrument panels, and electrical equipment. In many applications, aluminum is being used as a substitute or alternate material for nickel, copper, brass, and other metals in critical supply, he said. He further stated that the fourth-quarter demand is

normally greater than calendar third quarter, and it appears that this will definitely be the case this year.

If the aluminum industry can continue to expand, another member added, such new uses will be satisfied and other materials in scarce supply can be stockpiled.

Mr. William A. White, Sr., Assistant Deputy Administrator, BDSA, asked to what extent requirements are expected to be in excess of anticipated supply in the fourth quarter.

Although demand is not expected to exceed supply in any large quantities, if at all, in the fourth quarter, an early decision on the suspension of stockpile calls will have a psychological effect on the industry, a committee member believed. Continued deferral of stockpile deliveries, for instance, would permit the development of further expansion plans for 1956.

In conclusion, Mr. Edmunds asked the industry representatives to leave with the Aluminum and Magnesium Division individual company information on probable quantities of metal that each producer would make available to non-integrated users in the event there is no stockpile call in the fourth quarter of 1955.

SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

The committee members recommended:

1. That there be no stockpile call for the fourth quarter of 1955;
2. That the export of aluminum scrap be held to an absolute minimum.

It was the unanimous opinion of the committee that the next meeting be held as early as possible prior to a decision with respect to the first quarter of 1956 stockpile call.

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION

WASHINGTON, D. C.

MINUTES OF THE MEETING OF ALUMINUM SMELTERS INDUSTRY ADVISORY COMMITTEE, AUGUST 22, 1955

W. J. Edmunds, Jr., Director, Aluminum and Magnesium Division, Government presiding officer

Committee members:

*D. H. Warner, Aluminum & Magnesium, Inc., Sandusky, Ohio.
*J. M. Stone, Aluminum Smelting & Refining Co., Bedford, Ohio.
*A. Nichamin, American Smelting & Refining Co., Detroit, Mich.
*Louis Lippa, Apex Smelting Co., Chicago, Ill.
Philip Scheibner, Associated Metals Company of California, Oakland, Calif.
*Fred Berman, Berman Bros. Iron & Metal Co., Inc., Birmingham, Ala.
*Lowell S. Thomas, General Smelting Co., Philadelphia, Pa.
*Samuel Greenfield, Samuel Greenfield Co., Inc., Buffalo, N. Y.
*Edw. S. Christiansen, Christiansen Corp., Chicago Heights, Ill.
*J. P. Brull, North American Smelting Co., Wilmington, Del.
*Herman J. Galamba, Sonken-Galamba Corp., Kansas City, Kans.
*E. A. Bergman, U. S. Reduction Co., East Chicago, Ind.

Government representatives present:

Department of Commerce:
Bureau of Foreign Commerce:
John H. Kilby.
Virginia Torosan.
Leo S. Peak.
Business and Defense Services Administration:
William A. White, Sr., Assistant Deputy Administrator.
George Elliman, Adviser on Foreign Activities.
Richard Blaisdell, Office of Public Information.
Aluminum and Magnesium Division:
W. J. Edmunds, Jr., Director.
H. A. Frutig, Deputy Director.
A. A. Snow, Assistant Director.
Morris Bailkin.
Industry Advisory Committee staff:
Charles R. Hersum, Director.
Rose Robbins, Summary Writer.

*Present at meeting.

Other agencies:
Edmund Getzin, International Resources Division, Department of State.
B. K. Slaughter, Chief, Light Metals Division, ODM.
George Hartman, Small Business Administration.

PURPOSE OF THE MEETING

A meeting of the Aluminum Smelters Industry Advisory Committee was held on August 22, 1955, to discuss the following matters: Aluminum supplies and consumption, the current aluminum scrap export situation, effect of additional primary metal made available as a result of suspension of third quarter stockpile call, and other matters of mutual interest to the Government and the industry.

W. J. Edmunds, Jr., Director, Aluminum and Magnesium Division, BDSA, was the Government presiding officer.

OPENING REMARKS

Mr. Edmunds opened the meeting with the comment that this is the ninth meeting of the committee since it was first organized under NPA, but the third meeting since the establishment of BDSA on October 1, 1953.

After welcoming the members, Mr. Edmunds spoke about the rules governing the establishment of industry advisory committees and the conduct of meetings. He read from a copy of a letter dated October 19, 1950, addressed by the Department of Justice to the Secretary of Commerce, the requirements which should be met in order to minimize the possibility of violation of the antitrust laws.

Mr. Edmunds also noted that minutes of meetings are kept. He explained that GDSA has continued NPA policy of reporting comments by industry representatives in an anonymous manner and of identifying only Government speakers.

ALUMINUM SUPPLY AND CONSUMPTION

Copies of two tabulations were distributed to the committee members. One showed aluminum supplies for the period 1950–56 and demand from the second quarter 1950 through the year 1955. The other contained statistics on aluminum scrap for the period 1946–55.

Expressions from industry members indicated that the aluminum supply situation is still critical and that suspension of stockpile calls and curtailment of exports have resulted in very little relief for aluminum smelters. Possible reasons advanced for this situation by a committee member were: (1) Lag in distribution; (2) maldistribution; (3) lack of distribution; (4) suspension of stockpile call released an insufficient quantity of material to satisfy demand; (5) export quotas were not reduced enough; (6) business requirements are increasing; and (7) pipeline supplies are thinning.

Since the last meeting of the committee in April, inventories in the hands of smelters have decreased by approximately 9 million pounds, while unfilled orders have increased by approximately the same amount, according to ASRI figures, a committee member said. Discussion also revealed that short-term bookings are at an all-time high, while supplies have declined from 18 days at the end of April to about 12 days at the present time.

The scrap price rise which has occurred since the last meeting along with the entry of fabricators into the scrap market is indicative of the severity of the aluminum shortage, industry members explained. When fabricators purchase scrap to be used for conversion in order to obtain the additional metal they require from aluminum producers, a diversion of metal from its normal channels results. This factor is probably the outstanding cause of the high price of smelters ingot.

Several industry spokesmen expressed the opinion that independent extruders will require approximately 25 percent more metal in the fourth quarter than in the third quarter. Increased demands are also expected from the automotive industry which, because of the nickel shortage, is relying more heavily on aluminum. An upturn in electrical appliance production is also indicated, bringing another large aluminum consumer into the market. In all, the aluminum smelting industry anticipated an increased fourth quarter demand of at least 15 percent over the third quarter. Another fact brought out was that the slow-down for retooling in automobile plants for the 1956 models will involve only 5 or 6 days instead of the longer periods required in past years, bringing the demand from this segment of the industry earlier in the year than usual.

EFFECT OF STOCKPILE CALL SUSPENSION

Commenting on the effect of stockpile call suspensions, the industry men pointed out that the small amount of relief which resulted to foundries, diecasters, and smelters has, so far, been more than offset by increased demand. They urged that cognizance be taken of the fact that demand for smelters ingot by smelters' traditional customers has kept pace with demand in other segments of the industry. They also called attention to the fact that secondary ingot prices in the period of stockpile relief have risen steadily to over 30 cents a pound—approximately 5 cents a pound over the normal price range between secondary and primary ingot—a situation that can only be attributed to a real shortage of smelters' raw material, namely, scrap. Notable, too, is the fact that the increase in prices has occurred during the smelters' so-called slow period. The fall upturn has yet to be faced. Normally, during the summer slow period, smelters build inventory in preparation for fall demand.

Conceding that stockpile relief will be of some benefit to smelters' customers, an industry member pointed out that a side effect of such action is the redistribution of those customers arbitrarily among the primary producers, thereby proportionately weakening the position of smelters with their traditional customers. Unless more drastic action is taken to relieve the domestic scrap shortage, the best that the foundries can hope for is 40 percent of their supply at near normal prices and 60 percent at a high premium, he declared.

THE SCRAP EXPORT SITUATION

Industry members blamed much of the smelters' plight on the current scrap export policy and they urged that the scarce-material provision of the Export Control Act be invoked. A policy that results in a drain of up to 10 percent of one segment's available normal source of supply can hardly be considered equitable, a committee member contended. This situation is further aggravated by the existence of regulations which provide relief to other segments of the same industry which face less stringent supply problems.

If, in implementing foreign policy, certain tonnages of United States aluminum resources must be made available for export, an industry man suggested that the burden be spread proportionately among all segments of the industry. For example, assuming an export quota of 5 million pounds per month and that scrap constitutes 20 percent of the available supply, then the allowable scrap export should not exceed 1 million pounds or 20 percent of the total available supply and the rest of the export burden should be borne by other segments of the industry.

Following a discussion on the extent of licensing during the third quarter which revealed that under 1,000 tons had been licensed to date and that about half the tonnage licensed in the second quarter is still unshipped, an industry member maintained that this is not a valid argument against the inflationary impact of exports since the mere existence of those licenses overhanging the market will tend to hold prices to a point to discourage the movement of scrap until such time as an excess supply exists—a situation that will probably not occur as long as there is a stockpile program.

The opinion of the industry, generally, was that, were it not for scrap exports or the threat of exports overhanging the market, scrap and smelters ingot could return to their historic relationship with primary metal provided, of course, that the primary producers use reasonable restraint in their own purchasing policy and provided further that stockpile relief is continued to lighten the pressure on other segments of the industry which have turned to conversion deals for assistance.

An industry member explained that, for the most part, aluminum scrap is traded in a free market. Its price fluctuates freely with changes in supply and demand. Usually foreign countries permit the import of scrap duty-free but place a heavy protective tariff on the import of semifinished or finished material. Thus when scrap aluminum is available in the United States, an almost unlimited foreign demand exists provided the price does not exceed world market prices. When the price rises, foreign demand falls off. A rise in scrap prices also, however, has an adverse effect on the smelting industry, as the price of its ingot then rises above that of primary ingot. These price fluctuations do not occur in the primary industry. Therefore, when scrap is drained from the domestic market, smelters' customers turn to primary metal because it can be purchased more cheaply. The effect on the smelting industry in such a situation is devastating. (The full statement of the industry member on simple economics concerning the export of aluminum scrap is attached.)

The United States, Mr. Edmund Getzin, State Department, pointed out, is committed to a free-trade policy. Therefore, every move toward placing restrictions on exports has, in the eyes of foreign countries, the effect of the United States contradicting its own policy.

Answering a question, Mr. Edmunds stated that no restrictions exist on the export of primary aluminum or semifabricated products. Mr. John Kilby, Bureau of Foreign Commerce, added that the policy decision on the export of primary ingot provides that the situation be reviewed when 700 tons have been licensed.

Commenting on an industry suggestion that, when releasing material as a result of stockpile suspension calls, the Government earmark some of that material for export purposes, both Mr. Edmunds and Mr. Frutig explained that BDSA has no directive authority for other than defense requirements.

The committee was also reminded that supply contracts between producers and the Government covering the new facilities built since 1951 provide that, if the Government does not take two-thirds of the metal produced, it must go to nonintegrated producers. The Government, however, has no authority to direct the distribution. A committee member countered this explanation with the statement that by allowing scrap to be exported, the Government, in effect, is directing smelters' customers to the primary producers.

Another fact emphasized was that prime producers have several alternative material sources, whereas smelters have only one—scrap. The industry members strongly urged that the Government find some remedy that will protect this segment of the industry which is comprised chiefly of small businesses.

A committee member reported on a study that had been made showing that West Germany is the principal importer of aluminum scrap and has, during the past year and a half accumulated substantial inventories. He questioned why more scrap should be allowed to flow there in the face of extreme scrap shortage in the United States. Miss Virginia Torosan, Bureau of Foreign Commerce, confirmed that West Germany inventories range from 6 weeks to 2 months, but she also pointed out that scrap exports are steadily declining.

COMMITTEE RECOMMENDATIONS

After hearing a report from Mr. Edmunds that ODM wishes to resume stockpile calls during the fourth quarter, the committee unanimously recommended as follows:

1. That stockpile calls for the fourth quarter of 1955 be suspended;
2. That exports of aluminum scrap in the fourth quarter of 1955 be limited to a maximum of 1,500 tons and that any additional tonnage needed to fill export demand come from sources other than scrap;
3. That, if for practical reasons pig cannot be used to fill export requirements for aluminum raw material, the smelting industry should be reimbursed for its loss of scrap by having an appropriate tonnage of pig directed to it from stockpile relief metal;
4. That export licenses remain valid for a maximum of 90 days but in no event beyond 30 days following the quarter in which they are issued;
5. That a sincere comprehensive investigation be made to ascertain if metal made available by suspension of the third quarter stockpile call was properly distributed to independent fabricators and smelters; and
6. That any metal freed by suspension of the fourth quarter stockpile call should be distributed fairly to independent fabricators and smelters, with distribution being made on an equal monthly basis within the fourth quarter.

Attachment.

Some simple economics concerning the export of aluminum scrap:

1. Aluminum scrap is traded, for the most part, in a free market. Its prices fluctuate freely with changes in supply and demand.
2. Aluminum scrap is purchased by:
   (*a*) Smelters.
   (*b*) Primary producers.
   (*c*) Foundries, billet makers, and others for direct use.
   (*d*) Wrought product users for toll by their suppliers.
   (*e*) Exporters.
3. Most foreign countries who import scrap impose high import duties on virgin aluminum pig and ingot to protect their own domestic aluminum producing industries. These duties vary from country to country and so

the actual world market prices for primary pig and ingot, which is the purchase price plus the duty, varies from country to country.

4. When scrap aluminum is at price levels where it can be converted into ingot or below the world market price for primary aluminum, there seems to be an almost unlimited demand for scrap by foreign consumers. When the price in this country of converting scrap into ingot is higher than the world market price for virgin aluminum, then the export demand falls off.

5. When there is plenty of primary aluminum available in this country, the price of scrap is low and smelters ingot prices are at or below the primary aluminum level.

6. When primary aluminum is in short supply in this country, the price of scrap is high, sometimes even higher than the temporarily unavailable pure pig, and the price of smelters ingot tends to rise above the primary pig and ingot price.

The aforementioned facts interwork differently under different conditions.

A. When primary aluminum pig and ingot are in abundant supply, the normal users of primary (which is at a fixed price which doesn't vary with changes in supply and demand) will only enter the scrap market when scrap is far below the virgin aluminum price. The normal users of scrap can purchase scrap for relatively low prices and their customers can purchase products produced from scrap (in our case smelter ingot) at low prices. Unrestricted export of scrap (as in 1954) changes this picture entirely. Since scrap moves in a free market, the exporter competes with the normal consumers and by bidding up the price purchases his requirements which are usually for very high grade scrap. Since this high grade scrap is not limitless supply, the price of scrap for all users rises. If the demand continues, the price will rise until it is more economical for domestic consumers to use virgin aluminum rather than scrap.

To illustrate—under these conditions the readily available virgin aluminum is used as a substitute for smelters pig unless smelters attempt to maintain their markets by underselling virgin aluminum and absorbing the price differential. This cannot continue long and in 1954 several smelters withdrew from the aluminum business rather than try to buck these economics.

B. Under a condition of short supply of primary pig and ingot, scrap is in demand by its normal users and by any other user of aluminum in any shape or form who can have the scrap traded or tolled for his needs. Under these conditions export further aggravates the shortage by being one more competitor in the already overcrowded market place. Under conditions of extreme shortage (as in most of 1955) the domestic demand for scrap is so extreme that foreign consumers cannot pay prices high enough to compete. However, increased domestic production of virgin aluminum, release of stockpile calls against virgin producers, and/or lessened demand for aluminum products could make enough metal available to lessen the pressure on the scrap market and scrap prices could weaken. When this occurs, and if export is allowed in large quantities, then the exporter will again tend to bolster the scrap aluminum price and will once again counteract the normal economics and disturb the normal relationships between scrap consumers and their normal customers.

Who benefits from these conditions:

1. The foreign user of scrap who has a cheap source of aluminum.

2. The exporter—though most of these are small companies operating out of offices in coastal cities, they are probably the largest gainer.

3. The producer of scrap—he may receive more for his scrap.

4. The few scrap dealers, especially in coastal areas, who are prepared to package scrap for export.

5. The three primary producers who don't have to compete with low priced smelters ingot and who can then sell substantial quantities of virgin aluminum to the foundry and die casting industries who normally buy smelters ingot.

Who suffers from this condition:

1. The domestic scrap consuming industries whose product must sell for higher prices.

2. The thousands of customers of the scrap consuming industries (in our case the foundries and die casters) who must pay higher prices and pass them on to their customers.

3. The American public who ultimately pay more for the products they buy

DEPARTMENT OF COMMERCE

BUSINESS AND DEFENSE SERVICES ADMINISTRATION, WASHINGTON, D. C.

MINUTES OF THE MEETING OF PRIME ALUMINUM PRODUCTS INDUSTRY ADVISORY COMMITTEE, AUGUST 24, 1955

W. J. Edmunds, Jr., director, Aluminum and Magnesium Division, Government presiding officer

Committee members:
*D. Wilmot, Aluminum Company of America, Pittsburgh, Pa.
W. E. Sprackling, Anaconda Wire & Cable Co., New York, N. Y.
Terry W. Kuhn, Bohn Aluminum & Brass Corp., Detroit, Mich.
*A. P. Cochran, Cochran Foil Co., Louisville, Ky.
*Lawrence M. Brile, Fairmont Aluminum Co., Fairmont, W. Va.
Leo M. Harvey, Harvey Machine Co., Torrance, Calif.
*S. S. Inch, Kaiser Aluminum & Chemical Corp., Oakland, Calif.
*Leonard Starr, Michael Flynn Manufacturing Co., Philadelphia, Pa.
*Frank R. Nichols, Nichols Wire & Aluminum Co., Davenport, Iowa.
*John W. Douglas, Republic Foil & Metal Mills, Inc., Danbury, Conn.
*Harold C. Wilson, Revere Copper & Brass, Inc., New York, N. Y.
David P. Reynolds, Reynolds Metals Co., Louisville, Ky.
*Robert P. Stranahan, Stranahan Foil Co., South Hackensack, N. J.
*George A. Ginsburg, United Smelting & Aluminum Co., New Haven, Conn.
Arthur Lowery, Wyman-Gordon Co., Worcester, Mass.
Lewis M. Burt, Youngstown Manufacturing, Inc., Youngstown, Ohio.

Other industry representatives present:
Clyde M. Adams, Bohn Aluminum & Brass Corp., Detroit, Mich.
M. M. Caskie, Jr., Reynolds Metals Co., Richmond, Va.

Government representatives present:
Department of Commerce:
Virginia Torosan, Bureau of Foreign Commerce.
Business and Defense Services Administration:
George Elliman, Adviser on Foreign Activities.
Richard Blaisdell, Office of Public Information.
Aluminum and Magnesium Division:
W. J. Edmunds, Jr., Director.
H. A. Frutig, Deputy Director.
A. A. Snow, Assistant Director.
Morris Bailkin.
H. C. Erskine.
J. H. Styer.
Industry Advisory Committee staff:
Charles R. Hersum, Director.
Rose Robbins, summary writer.
Other agencies:
William S. Floyd, Assistant Director, Materials, ODM.
B. K. Slaughter, Chief, Light Metals Division, ODM.
George S. Hartman, Small Business Administration.

PURPOSE OF THE MEETING

The Prime Aluminum Products Industry Advisory Committee met on August 24, 1955, to discuss the following matters: Current aluminum supply and demand probable fourth quarter 1955 demand, fourth quarter 1955 stockpile call, and other matters of mutual interest to the Government and the industry.

W. J. Edmunds, Jr., Director, Aluminum and Magnesium Division, BDSA, was the Government presiding officer.

OPENING REMARKS

After opening the meeting, Mr. Edmunds expressed, on behalf of BDSA, appreciation for the time and effort contributed by the committee members in advising the Government on the complex problems confronting it.

*Present at meeting.

He then spoke about the rules governing the establishment of industry advisory committees and the conduct of meetings. From a copy of a letter dated October 19, 1950, addressed by the Department of Justice to the Secretary of Commerce, Mr. Edmunds read the requirements which should be met in order to minimize the possibility of violation of the antitrust laws. He also noted that minutes of meetings are kept, explaining that BDSA has continued NPA policy of reporting comments by industry representatives in an anonymous manner and of identifying only Government speakers.

SUPPLY AND DEMAND SITUATION

Copies of two tabulations were distributed to the committee members. One showed aluminum supplies for the period 1950–56 and demand from the second quarter 1950 through the year 1955. The other contained statistics on aluminum scrap for the period 1946–55.

In response to Mr. Edmund's request for comments, a member of this committee who also serves on the Aluminum Producers Industry Advisory Committee stated that he as well as other representatives of primary producers present at this meeting had already expressed themselves on the subject of supply and demand at the meeting held the previous day. He suggested, therefore, that representatives of other segments of the industry be heard from first. No objection was voiced to this procedure.

Views expressed by the several members indicated that order bookings are still at a high level and will continue so through the fourth quarter. In fact, many members expected third quarter bookings to be surpassed in the fourth quarter.

The industry was greatly aided by suspension of stockpile calls during the second and third quarters, the members said. The relief afforded by this action has enabled companies to keep their workers employed on a regular basis.

The committee members expressed the firm belief that the growing demand for aluminum is not of a temporary nature. Superimposed upon a growing normal demand are abnormal demands arising as a result of strikes in the copper and brass industries and from the destruction wrought by the floods in the Connecticut Valley. The drop in demand that was expected after the recent aluminum price increased was announced never materialized.

One industry member expressed the view that companies with electrical equipment on order for future expansion facilities may be faced with setbacks because of the diversion of equipment to disaster areas.

Representatives of the primary aluminum producers stated that production of primary metal during the fourth quarter is expected to equal that of the third quarter. However, there is a possibility of a power shortage in the Pacific Northwest, but it is as yet too early to know for certain whether it will occur. If it does materialize, production will be somewhat affected. From all present indications, demands for all lines of products are expected to increase for the fourth quarter.

An industry member noted that the aluminum supply is not keeping pace with demand and, had the industry not received assistance through suspension of stockpile calls, commitments would not have been met. From a rough analysis which the industry man made, he estimated that demand increases about 11 to 13 percent per year over historical requirements. At that rate, a domestic capacity expansion of about 200,000 tons a year is called for. About 50 to 70 percent of the existing capacity has been brought in by Government implementation of one kind or another, he continued. Government aid has also been advanced in other areas undergoing expansion, such as water and electric power. All this, he observed, makes the Government an interested party, and he advocated that it take steps to see that an adequate supply of aluminum is made available to meet the needs of industry in general. The aluminum industry, he added, represents close to 1 percent of the gross national product.

The industry man stated that he could not conceive of the military not being able to use every pound of aluminum produced because of the basic nature of the product. He urged the Government to offer certificates of necessity and contracts to people who want to enter the field.

Mr. Edmunds explained that the Government is definitely an interested party with respect to aluminum. All agencies having even anything remotely to do with aluminum are taking an interest in the matter. Having industry's views

on the matter is very helpful, he said, adding that the problem is one of deciding how far the Government should go in any business. Problems such as this are beyond the scope of the Aluminum and Magnesium Division's responsibility, however, he explained.

DISCUSSION OF FOURTH QUARTER STOCKPILE CALL

The unanimous view of the committee was that the stockpile call for the fourth quarter of 1955 should be suspended. Should the call be made, many plants will have to curtail operations for lack of metal. Some companies may suffer considerable financial embarrassment because of inability to operate expanded facilities which were constructed with borrowed capital. Labor will also suffer if plants cannot operate. A fourth-quarter stockpile call will throw the industry into a chaotic condition, the industry members emphasized.

All members were of the opinion that metal released by suspension of the stockpile call will be easily absorbed by the evergrowing demand. A representative from the extruders segment of the industry cited a study made by the aluminum extruders council which indicated a fourth-quarter demand from that segment alone of 133 million pounds.

If the supply of metal is reduced from the present level, the members warned, fabricating companies will have to ration customers—a situation which will foster a lack of confidence in the industry.

Asked whether the Office of Defense Mobilization is issuing certificates of necessity on aluminum expansions, William S. Floyd, Assistant Director, Materials, ODM, stated that no certificates are being issued at the present time but, he added, the matter is under study and a decision is expected to be announced soon.

THE SCRAP EXPORT SITUATION

Mr. Edmunds reported that about 4,500 tons of scrap licensed during the second quarter of 1955 have not as yet been shipped. The quota for this quarter was 9,000 tons. During the third quarter, licenses to date have been issued for about 1,000 tons against a quota of 5,000 tons.

With one exception, the industry members urged that scrap exports be drastically curtailed or eliminated entirely, maintaining that it is inconsistent to suspend shipments to the stockpile while at the same time allowing much-needed scrap to be exported. One member took the opposite view, stating that trade should be kept as free as possible. In the light of declining export shipments, he questioned the advisability of a complete embargo. Other committee members pointed out, however, that the decline in exports is attributable chiefly to the attractive prices which scrap dealers can obtain domestically. If any appreciable exports are authorized, such action is bound to influence domestic prices considerably.

COMMITTEE RECOMMENDATIONS

The committee recommended as follows:

1. That the stockpile call for the fourth quarter of 1955 be suspended.
2. That exports of aluminum scrap be drastically reduced or eliminated altogether.
3. That another meeting of the committee be scheduled early in November at which the demand-supply situation will again be reviewed and recommendations made for first quarter 1956 action.

Mr. Edmunds indicated that a decision on fourth-quarter action would be forthcoming in the very near future. It will, of course, be transmitted to the industry as quickly as possible in order to facilitate fourth-quarter planning.

A meeting to discuss first-quarter 1956 action will be called as early as feasible.

OTHER DISCUSSION

Aid for flood-stricken areas.—On behalf of the industry, the committee offered to give all assistance possible to plants in flood-stricken areas.

Comparison of 1954 and 1955 consumption.—The estimate of the Aluminum and Magnesium Division is that total consumption of aluminum will be about 1 billion pounds more in 1955 than in 1954, when 3.1 billion pounds were consumed.

Idle aluminum reduction facilities.—In answer to questions, the committee was told that the high cost lines at Badin and Massena, which produce for stockpile only, will be operated at a diminished rate during the fourth quarter preparatory to closing down the units entirely. Reduced operations were decided on to lessen the impact on labor. Insofar as industry is concerned, supply will not be affected.

Report on aluminum producers IAC meeting.—At the close of the meeting, copies of a press release on the Aluminum Producers Industry Advisory Committee meeting held August 23, 1955, were distributed to the committee members.

NEXT MEETING

The next meeting of the committee will be held early in November, the date to be set by Mr. Edmunds.

Section IX. Releases by the General Services Administration concerning aluminum expansion programs, October 18, 1950, to October 12, 1954

ADDRESS OF JESS LARSON, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION, BEFORE THE AUTUMN MEETING OF THE ALUMINUM ASSOCIATION, NEW YORK, N. Y., OCTOBER 18, 1950

Mr. Reynolds and gentlemen, I always feel at home with representatives of the aluminum industry. I've been in the aluminum business myself—in a limited sort of way—as many of you know. And from the way events are shaping up at present it looks as if I, as Administrator of General Services, and you gentlemen of the aluminum industry, will be seeing a great deal of each other in the days to come.

I never talk to people in the aluminum industry on occasions such as this but what a thought occurs to me—as I am sure often occurs to you—of the extraordinary growth of this youngest of the metals.

Not 100 years have passed since a most gifted, but unfortunate ruler, had the idea that this metal—which was then a precious metal—might some day take a position of great importance for military uses. As you know, at that time the production of aluminum was only a few pounds a year and its price about $17 a pound.

If Napoleon III could come to New York today, not the least of the surprises awaiting him would be those sleek monsters of the sky—the commercial airliners, constructed almost entirely of aluminum. And that great building on the banks of the East River—which houses the United Nations. Its shining aluminum facade represents for us at the same time our greatest hope for lasting peace and a union of all nations. It is also an example and promise of the great progress which the aluminum industry has already made and the greater progress which is in store for it in the future.

If I may be pardoned for mentioning it, another thought that occurs to me concerns my own personal connection with the aluminum industry. As Administrator of the War Assets Administration, I was engaged in disposing of the Government-owned aluminum plants. Now, as Administrator of General Services, I am cast in the role of an important purchaser of aluminum metal and aluminum goods for our strategic and critical materials stockpile and also for the current needs of the Government.

Looking back on those days at War Assets and the Government's disposal of aluminum facilities, one is, I think, struck by the hesitancy displayed by American industry to take advantage of the opportunities which the Government disposal program offered.

The first step in the disposal program was to send telegrams to all the principal companies in the nonferrous metal field and to all companies engaged in the fabrication of aluminum inviting them to indicate any interest that they might have in the acquisition of the aluminum plants. As a result of this solicitation, only three companies showed what might be considered a serious interest, and in the negotiations which ensued it became apparent that their interest was hedged about by serious doubts of ultimate success in this field.

This sentiment was so pronounced that the original disposals made of the Government-owned plants to the 2 companies, which today account for approximately 50 percent of our ingot capacity, was based on comparatively short-term lease arrangements, with a very moderate rental for the first 2 or 3 years of operation, and very liberal cancellation terms in favor of the lessees.

Well * * * as you gentlemen know, a great deal of water has passed under the bridge since those original leases were entered into. The success of the new producers of aluminum has been very substantial. The Government has been able to sell the plants to the lessees and thereby withdraw completely from the aluminum industry. Up until a few weeks ago—in August, to be exact—the Government still retained two reduction plants with their equipment which could not be operated commercially because of the lack of power and were being

held in standby for national defense. However, even the equipment in these plants—at Riverbank, Calif., and Burlington, N. J.—has now been sold for removal and reinstallation in localities where power can be obtained.

The total annual production of aluminum available for defense and civilian use is expected to be increased by about 100,000 tons a year as a result of the sale of this equipment. The purchasers were two companies new to the primary aluminum production field and to two companies already in the industry.

The Apex Smelting Co. of Chicago bought 1 line of pots and 1 line of rectifiers which it will install in a new plant to be built in Arkansas. Apex has been in the secondary smelting business, but with the new equipment will go into primary aluminum production.

Harvey Machine Co. of Torrance, Calif., purchased one line of rectifiers. This company at present operates an extrusion plant, but will begin the production of aluminum in a new plant to be built near Hungry Horse Dam, Mont.

Reynolds Metal Co. bought 1 line of pots and 1 line of rectifiers for installation in its present plant at Jones Mill, Ark.

Kaiser Chemical & Aluminum Corp. acquired 2 pot lines and 1 line of rectifiers for use in a new plant to be built near New Haven, W. Va. One of the pot lines will be used to match up with a line of rectifiers which it now has, so that the company will have a total of two additional pot line operations.

The important thing about these transactions, gentlemen, is that a condition of the sales is that production with the additional equipment should be forthcoming within a year. In some cases, it may result as early as next March. Furthermore, the sales will bring about increased aluminum production in about the same time that it would have taken to reactivate the plants at Riverbank and Burlington. And, as a further advantage, these sales make possible better geographical separation of plants and will place production in areas where power can be obtained at low rates.

To summarize then, the Government's entire inventory of aluminum facilities, which at the beginning was represented by plants having an acquisition cost of approximately $700 million, has been reduced to the real estate and buildings at Riverbank and Burlington from which this equipment will be removed—and to an extrusion plant at Halethorpe, Md., and to an aluminum forgings plant at Erie, Pa., both of which are being held in the national industrial reserve.

However, as I have indicated, my chief interest as Administrator of General Services, has now been diverted from the disposal of aluminum plants to the procurement of aluminum adn aluminum products.

This is being carried forward under three programs:

The General Services Administration purchases a vast number of aluminum products for use by the various Government agencies. This is handled by our Federal Supply Service.

As the agency responsible for the purchase, care and handling of the stockpile of strategic and critical materials, the General Services Administration is a continuing purchaser of bauxite ore and aluminum ingot. This function formerly was entrusted to our Federal Supply Service, but when the program took on a greatly increased importance under the defense program, we felt it necessary to set up a separate department in GSA to handle the stockpile more efficiently and to prevent its operations from interfering with the regular activities of the Federal Supply Service. This new department is known as the Emergency Procurement Service.

And finally, the General Services Administration has been entrusted, under an Executive order of the President which implements the Defense Production Act of 1950, with the purchase of metals, minerals, and other raw materials for the Government's use and resale; and with the installation of additional equipment, processes or improvements as well as the installation of Government-owned equipment in private plants.

These functions are primarily designed to increase the metals and commodities in short supply. Of these, aluminum is one of the most—if not the most—critical and it is very likely that the General Services Administration will play an important part in assisting in the expansion of aluminum metal production.

So, gentlemen, what of the future? For you in the industry and for us in the Government.

I suppose that almost everyone here will agree that there is not enough aluminum metal producing facilities in the United States. Since the end of World War II, except for brief periods, metal producing facilities have been operating at capacity. And yet, during most of this period there has not been enough

aluminum to supply the demand. For long periods of time secondary metal has been selling at a higher price than virgin ingot.

This is not a healthy condition for any industry. It is particularly true for a young industry which is growing as rapidly as aluminum and in view of the time required to construct and put into operation new production facilities.

The shortage of aluminum facilities appears even more critical when our defense requirements are considered, and when one considers that the peacetime uses of aluminum may be expected to increase substantially over the long term.

The extent of the aluminum shortage in the United States may be open to conjecture, but that a shortage does exist is clear.

Various means have been made available under recent legislation whereby the Federal Government can assist the industry in increasing its production. Let me enumerate them briefly:

First, there is accelerated amortization whereby 20 percent of the cost of facilities built for national defense may be deducted annually from income for tax purposes until they have been written off entirely.

There are the loans made by private banks but guaranteed by the Government—as were the T and V loans during the last war—primarily designed to provide additional working capital. Also, the RFC loans in which the security of principal is not the chief consideration.

As I have already mentioned, there is the installation of Government-owned equipment in private plants.

The law and the President's Executive order providing these facilities have only recently been promulgated and the regulations have not yet been set up. I can, however, promise you that they will be issued in the very near future. We in General Services have devoted a great deal of time and effort to our responsibilities and have been in continuous consultation with the other agencies involved in an effort to be in a position to do business under the new act at the earliest possible moment.

And, finally, a further Government aid to increased production which has been on the books for some time, but which has recently greatly increased in scope, is the stockpile program—one of the primary responsibilities of the General Services Administration. This program not only provides a continuing market for aluminum, but will undoubtedly act as a cushion if a slackening in demand should occur.

In view of the fact that a congressional hearing on the aluminum stockpile is scheduled for the 1st and 2d of November before Representative Celler's antimonopoly committee and that I doubtless will be called upon to appear, perhaps it would be discreet for me not to discuss this matter further at this time. However, when I accepted the invitation to talk with you gentlemen, I made up my mind to discuss all current problems openly and frankly.

There are many people who sincerely believe that stockpile purchases should be discontinued during times of great civilian demands. I cannot agree with this view.

The stockpile program was instituted in 1939, and never since the end of World War II has it assumed greater importance than at the present time. The stockpile is designed to afford protection to this country in the event of an emergency in many ways. If, for example, it becomes necessary during an emergency to expand capacity, the stockpile will be available until the new plants can be brought into operation. Should existing facilities be destroyed by accident, sabotage or military action, the stockpile will be available until rehabilitation can be effected.

In short, the stockpile is one of the most critical elements in our defense picture. I conceive it to be my duty to continue to accumulate materials for the stockpile as rapidly as funds and conditions permit.

It goes without saying that priority in stockpile purchases will always be given to domestic producers. However, if the domestic producers are unable to supply the stockpile without cutting down civilian supplies, in my opinion we should have recourse to foreign purchases. I am loath to disturb the civilian economy any more than is absolutely necessary except in time of emergency. The reason for this is obvious. An emergency, by definition is a temporary state and it is the duty of everyone to exert his maximum effort to terminate it successfully at the earliest possible moment. On the other hand, a period of preparation for possible war is not limited in time and may continue for many, many years.

Basically, our soundest defense is a strong national economy and a flourishing industry. And I feel that there should be the least interference with the free flow of commodities to their normal market.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Thursday, November 16, 1950. GSA–80

The General Services Administration has entered into an agreement with the Aluminum Company of America for immediate reactivation of Alcoa's idle aluminum production facilities at Massena, N. Y., and Badin, N. C., Jess Larson, Administrator of General Services, announced today.

As a result of the agreement, about 55,000 tons of the metal will be delivered to the national stockpile during the calendar year of 1951 and 79,000 tons annually thereafter. Production will get underway in February.

At the same time, Mr. Larson said that the National Security Resources Board, Defense Minerals Administration, Department of the Interior, and GSA are coordinating their efforts to bring about the construction of new facilities for greatly increased aluminum production. Negotiations are now being conducted not only with existing domestic aluminum producers but also with other interested parties.

Mr. Larson said that under the Defense Production Act of 1950 he is offering substantial assistance to private enterprise for this planned increased production of aluminum. Such assistance would include accelerated plant amortization and agreement to purchase part of the expanded output.

"We are hopeful of getting this increased production at the earliest opportunity; and the Government feels strongly that this long-range program should be carried out with private capital insofar as possible," Mr. Larson declared.

Mr. Larson said that for immediate defense requirements during the period before these new facilities can be brought into operation only three possibilities present themselves: (1) Reactivation of idle plants; (2) increased imports, and (3) reduction in civilian use.

With the reactivation of Badin and Massena, all installed aluminum facilities of the United States will be in operation. Additional facilities already decided upon at Jones Mills, Ark., and Spokane, Wash., are expected to be in operation the early part of next year.

The latter two installations will bring in an additional 50,000 tons a year.

The possibility of increasing imports now is limited, Mr. Larson said, pointing out that although the Aluminum Company of Canada offered to supply some 200,000 tons of aluminum to the United States, it was unable to deliver the bulk of this amount (125,000 tons) until 1953 and 1954. By this time, he added, all the new planned facilities in the United States will have come into production.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Saturday, November 25, 1950. GSA 83

An agreement for the expansion of aluminum production by the Reynolds Metal Co. which will make available for Government purchase an additional 100,000 tons of aluminum ingots per year was announced today by Jess Larson, Administrator of General Services.

Under the agreement, which is part of a general aluminum production expansion program being spearheaded by the General Services Administration, the Reynolds Co. will:

Construct a new aluminum plant capable of producing 75,000 tons annually. It is hoped that the new plant, the site of which has not as yet been definitely determined, will be in production by the first half of 1952.

Expand existing facilities at Jones Mill, Ark., to produce an additional 25,000 tons annually at this site. It is expected that these expanded facilities will be in operation by early 1951.

Mr. Larson said the agreement provides for the purchase of aluminum by GSA, and that the Reynolds Co. may get assistance under provisions of the Defense Production Act by recommendation of GSA to the National Security Resources Board.

This assistance would include accelerated plant amortization and guarantee of loans should they be necessary to help finance the projects.

Negotiations for the Government were conducted by Mr. Larson and James Boyd, Director of the Bureau of Mines and Acting Administrator of the Defense Minerals Administration, Department of the Interior.

The annual 100,000 tons of aluminum which the agreement will make available to the Government for stockpiling and other defense programs is in addition to 79,000 tons which will result from the reactivation by the Aluminum Company of America of idle facilities at Massena, N. Y., and Badin, N. C. GSA and Alcoa agreed to the reactivation of these plants last week.

Negotiations are under way with other aluminum companies for the expansion of existing facilities and the construction of new ones.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, November 27, 1950. GSA–84

Taking another step to increase aluminum production for stockpiling and other defense needs, the General Services Administration today reached an agreement with the Kaiser Aluminum & Chemical Corp. to expand its facilities to provide an additional 100,000 tons per year.

Jess Larson, Administrator of General Services, said that the Kaiser agreement brings to 279,000 tons per year the amount of increased aluminum production brought about so far by the Government's program for expansion of this industry.

Last Saturday, an agreement with the Reynolds Metal Co. added 100,000 tons to the amount to become available for Government purchase.

On November 16 the Aluminum Company of America agreed to proposals made by GSA and the Defense Minerals Administration to reactivate immediately its idle facilities at Massena, N. Y., and Badin, N. C., which have a 79,000 ton annual capacity.

In order to increase its capacity 100,000 tons, Kaiser will begin immediately an expansion program which calls for the construction of new facilities, a new plant or plants somewhere in the Southwest.

Mr. Larson said that the expanded facilities will be privately financed with assistance being given, if needed, under provisions of the Defense Production Act by recommendation of GSA to the National Security Resources Board. This act provides for loan guarantees and accelerated plant amortization.

The first unit in the expanded Kaiser facilities is expected to be in production by September 1951, and the remaining units by April 1952. Kaiser production, which is presently 150,000 tons, will be increased about 66 percent.

Kaiser has already agreed to step up production at its Spokane reduction plant by 20,000 tons.

Negotiations with the Kaiser company have been in progress for several weeks. GSA and the Defense Minerals Administration, Department of Interior, have been carrying out the aluminum expansion program in cooperation with NSRB and the Munitions Board.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, November 29, 1950. GSA–85

In a further step to increase aluminum production for stockpiling and other defense needs, the General Services Administration today announced that an agreement had been reached with the Aluminum Company of America to expand its facilities to provide an additional 120,000 tons per year.

Previously ALCOA had agreed to reactivate immediately its idle facilities at Massena, N. Y., and Badin, N. C., which are capable of producing 79,000 tons annually.

Jess Larson, Administrator of General Services, said the agreement with ALCOA will result in a total of 399,000 tons of aluminum per year being made available to the Government under the stepped-up program for expansion of this industry.

The agreement with ALCOA follows closely the one entered into on Monday (November 27) with the Kaiser Aluminum & Chemical Corp. for 100,000 tons.

On November 25, the Reynolds Metal Co. agreed to add 100,000 tons to the amount to become available for Government purchase.

ALCOA's plans for expansion of its facilities call for the construction of one new aluminum pot line at its Point Comfort, Tex., plant. This facility is expected to

go into production by the middle of 1952. ALCOA also will construct a new plant at a site not yet determined, and expects to have this facility in production within a year after completion of the pot line at Point Comfort, Tex.

Mr. Larson said that under the agreement with ALCOA the expanded facilities will be privately financed with assistance being given, if needed, under provisions of the Defense Production Act by recommendation of GSA to the National Security Resources Board. This act provides for loan guarantees and accelerated plant amortization.

Negotiations with the Aluminum Company of America have been in progress for several weeks. GSA and the Defense Minerals Administration, Department of Interior, have represented the Government in carrying out the aluminum expansion program in cooperation with NSRB and the Munitions Board.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Wednesday, December 20, 1950. GSA–89

Agreement with the Harvey Machine Company of Torrance, Calif., for construction of a new aluminum and alumina plant to produce 72,000 tons of the metal annually for stockpiling and other defense needs was announced today by the General Services Administration.

Jess Larson, Administrator of General Services, said the agreement with Harvey Machine Co. brings to 471,000 tons per year the amount of increased aluminum production brought about so far by the Government's program for expansion and reactivation of this industry.

"It also adds a fourth primary producer to the industry," he said, "* * * the first since Kaiser began production of aluminum in 1945."

Agreements for expanded production with the Aluminum Company of America, the Kaiser Aluminum & Chemical Corp., and the Reynolds Metals Co., have already been announced by GSA.

Harvey expects to construct its plant near Kalispell, Mont., and to be in production by the middle of 1952.

Mr. Larson said that under the agreement with the Harvey Machine Co., the new plant will be privately financed with assistance being given, if needed, under provisions of the Defense Production Act by recommendation of GSA to the National Security Resources Board. This act provides for loan guarantees and accelerated plant amortization.

Inasmuch as the Harvey Co. will be a newcomer to the aluminum industry as a primary producer, it will be required to sell only 25 percent of its production in the open market. ALCOA, Kaiser, and Reynolds have obligated themselves to sell in the open market up to two-thirds of the metal produced in their new plants for a period of 5 years, and 25 percent to users with no primary producing facilities of their own for 15 years thereafter.

Negotiations with Harvey have been in progress for several weeks. GSA and the Defense Minerals Administration, Department of the Interior, have represented the Government in cooperation with NSRB and the Munitions Board.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Release, Friday Morning Newspapers, February 23, 1951.

The General Services Administration today leased a Government-owned aluminum and magnesium extrusions plant at Halethrope, Md., to the Kaiser Aluminum & Chemical Co., Jess Larson, Administrator of General Services announced.

The lease is for a 5-year period with options to renew. Rental paid the Government will be based on percentage of sales, with a minimum rental predicated on the appraised value of the facility.

Mr. Larson said lease of the plant, which had been declared surplus and was being held in the national industrial reserve, was approved by the Munitions Board. He said the Kaiser company expects to begin production of aluminum extrusions within 60 days.

The plant was built by the Government during World War II and was operated by the Revere Copper & Brass Co. This company continued to utilize a portion of the facility after the war in experimental work.

The Government Printing Office more recently has occupied portions of the plant for storage purposes.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Tuesday, March 27, 1951. GSA–103

The General Services Administration announced today it was undertaking, at the direction of the Munitions Board, to negotiate for the Commercial operation of the Government-owned aluminum forgings plant at Erie, Pa., operated during World War II by Aluminum Forgings, Inc.

All firms which have expressed an interest have been asked to submit by March 30 proposals for leasing the plant, the last inactive aluminum forging facility in the national industrial reserve.

Negotiations will be based on the technical and financial qualifications of those submitting proposals to produce the items for which the plant was designed by the Munitions Board. Prospective lessees need not have defense orders.

All proposals will be submitted to the Munitions Board for final consideration.

The lease will be subject to the national security clause.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

GSA–111

For Immediate Release, Friday, April 27, 1951.

At the direction of the Munitions Board, the General Services Administration will turn over to the Department of the Army the Government-owned former aluminum reduction plant at Riverbank, Calif., Jess Larson, Administrator of General Services, announced today.

The plant, operated by the Aluminum Company of America during World War II, will be used for the manufacture of steel shell cases.

Mr. Larson said the major part of the equipment in the plant already has been sold and installed elsewhere to increase the country's output of aluminum.

The Riverbank plant has been idle since the close of World War II and held in the national industrial reserve by GSA.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

GSA–135

For Immediate Release, Thursday, October 11, 1951.

The General Services Administration announced today that it had issued a letter of intent to the Reynolds Metals Co. for the construction of additional production facilities for primary aluminum in the amount of 60,000 tons per year. Reynolds Metals Co. is proceeding to finance this expansion by the use of private capital with General Services Administration offering a procurement contract and guaranty of such loans as might be required. This is the identical financing device under which expansion heretofore has been accomplished.

Reynolds Metals Co. through its spokesman indicated their plan to construct fifty-five of the sixty thousand tons involved in Arkansas in addition to its present facilities located in that State.

The letter of intent also carried a provision for the construction of additional alumina facilities to the extent of 1,000 tons of alumina per day capacity.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

GSA-136

For Release in Morning Papers, Wednesday, October 24, 1951.

A contract with the Aluminum Company of America for the construction of new facilities at Rockdale, Tex., to produce 85,000 additional tons of primary aluminum for stockpiling and other defense needs was announced today by the General Services Administration.

Jess Larson, Administrator of General Services said the 85,000 tons of aluminum will be in addition to the 120,000 tons which Alcoa will produce under an agreement reached with GSA last November.

Alcoa also has agreed to expand its facilities at Mobile, Ala., to step up production of alumina 170,000 tons annually.

Mr. Larson said that Alcoa will finance this expansion with private capital with assistance being given, if needed, under provisions of the Defense Production Act. This is the same method of financing which Alcoa employed under the previous agreement.

A provision in the contract obligates Alcoa to sell in the open market up to, two-thirds of the metal produced, less the amount required by the Government for a period of 5 years, and 25 percent to users with no primary producing facilities of their own for 15 years thereafter. This provision is identical with that contained in agreements with other producers participating in the aluminum expansion program.

Alcoa has advised GSA that its new facilities at Rockdale are expected to be in partial operation by late 1952.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Release to Morning Papers, Friday, November 9, 1951. GSA–137

An agreement with the Kaiser Aluminum & Chemical Co. to expand its facilities at Chalmette, La., to produce an additional 100,000 tons of aluminum for stockpiling and other defense needs was announced today by the General Services Administration.

Jess Larson, Administrator of General Services, said that GSA had signed a letter contract with the Kaiser Co. which provides for doubling the capacity of the plant near New Orleans. An agreement for the initial 100,000-ton production at the Louisiana location was announced by GSA last November. The first aluminum is expected to be poured next month, 10 months after construction was started on February 20, 1951.

In addition to the increased production of aluminum, Kaiser also has agreed to expand its alumina plant at Baton Rouge, La., to step up production to 800,000 tons of alumina annually, and to increase bauxite production in deposits now being developed in Jamaica, British West Indies.

Mr. Larson said that Kaiser will finance the additional expansion of the Louisiana facilities with private capital. In return, he said, the Government guarantees to purchase for 5 years the production from the expanded facilities which the company cannot sell to industrial users.

As in previous agreements, Kaiser Chemical & Aluminum is obligated to sell in the open market up to two-thirds of the metal produced, less the amount required by the Government, for a period of 5 years, and 25 percent to users with no primary producing facilities of their own for 15 years thereafter. A similar agreement is contained in contracts with other producers participating in the aluminum expansion program.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Release to Morning Papers, of Thursday, June 18, 1953. GSA–211

More than 90 million pounds of primary aluminum will be made available to independent fabricators by the 3 present producers during the third quarter of 1953, Edmund F. Mansure, Administrator of General Services, announced today. This is over and above purchases for the national stockpile and set-asides for the Atomic Energy Commission and the Department of Defense.

Mr. Mansure said that as a result of the Government-industry expansion and speedup program, total production of primary aluminum during the third quarter will be over 650 million pounds, of which approximately 220 million pounds will come from new facilities.

Construction under the first and second rounds of the aluminum expansion program is about 75 percent completed. By the time all plants are finished total production capacity will be well over 3 billion pounds of primary aluminum a year.

In addition, the Government is seeking to interest independent producers in a third round of aluminum expansion, and GSA has signed one such contract with the Harvey Machine Co., of Torrance, Calif. Plants to be built under this contract are scheduled for completion by May 1, 1955.

The General Services Administration has supply contracts with all of the three present producers—Aluminum Company of America, Reynolds Metals Co., and Kaiser Aluminum & Chemical Corp. With the termination of the controlled materials plan on June 30, a provision of these contracts relating to independent fabricators comes into force.

Under this provision the producers have agreed to make two-thirds of all aluminum produced by the new facilities, less the amounts charged to this total for Government requirements, available for purchase by nonintegrated users during the first 5 years of operation. For the ensuing 15 years, they have agreed to offer 25 percent of their expanded production to the nonintegrateds.

Actually the 90-million-and-some pounds of primary aluminum (pig, ingot, and billets) to be sold by the 3 producers to nonintegrated users during the third quarter is greater by some 18 million pounds than the amount they are required to sell to such users under the two-thirds rule.

The 18 million pounds to be sold to nonintegrated users over the minimum required by the contracts brings the total for the quarter to approximately the same amount of primary aluminum available to nonintegrated fabricators during the present quarter.

GSA's contracts with the producers provide that aluminum earmarked for independent fabricators must be advertised for sale on a first-come-first-served basis unless previously sold through regular contractual arrangements. The companies have advised GSA, Mr. Mansure said, that all the aluminum available for sale to the nonintegrated's during the third quarter has been contracted for on a long- or short-term basis.

"It is gratifying," Mr. Mansure said, "that the producers of primary aluminum have found it possible to make more aluminum available to the nonintegrated users during the forthcoming quarter than the minimum amount called for under the contracts.

"As more facilities come into production, I hope that even greater amounts may be made available to the independent fabricators. At the same time, it must be emphasized that, despite the tremendous amounts of aluminum now being produced and the still greater production ahead, our all-important defense requirements will continue to put a limit on the quantities of aluminum that can be made available for other uses.

"The Government-industry program is aimed at enough production of primary aluminum to satisfy all requirements—civilian, military, and stockpile. We all look forward to the attainment of that goal."

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

Advance Release for Morning Papers, Wednesday, June 24, 1953. GSA–211

A special interagency committee has been set up in the General Services Administration to oversee distribution of primary aluminum to nonintegrated fabricators throughout the country under GSA's supply contracts with domestic producers of the metal, Edmund F. Mansure, Administrator of General Services, announced today.

With the inauguration of the new defense materials system on July 1, a provision of the GSA-industry contracts which was not operative under the controlled materials plan will be the basic for determining the minimum quantities of primary aluminum which must be made available for purchase by nonintegrated users and the methods by which it will be sold.

Frederick W. Witt, of the Emergency Procurement Service, GSA, will be chairman of the new committee. Other members will be Arthur A. Snow, of

the National Production Authority; George F. Dudik, of the Office of Defense Mobilization, and E. Minton Holland, of the Office of General Counsel, GSA. Headquarters of the committee will be in the GSA Regional Office Building, Seventh and D streets SW., Washington 25, D. C.

The new unit will work with the producers and the nonintegrated fabricators—manufacturers who use aluminum but who do not produce the primary metal—on all matters relating to the producer-to-fabricator provision of the contracts but will not have responsibility for overall administration of the contracts, Mr. Mansure said.

Matters relating to purchases for the national stockpile, which is the Emergency Procurement Service's principal function, will be handled, as at present, by the Purchase Division of EPS. General administration of the contracts will be the responsibility of A. J. Walsh, Commissioner of the Emergency Procurement Service.

The provision of the contracts relating to nonintegrated fabricators requires the producers to make available to the nonintegrateds two-thirds of all additional production covered by the contracts, less the amounts charged to this total for Government use.

Purchases for the national stockpile are deducted in total from the two-thirds figure, while set-asides for the Atomic Energy Commission and the Department of Defense are charged against the companies' total production and prorated against new production.

The stockpile purchases and set-asides are scheduled in advance on a quarterly basis. As announced recently by Mr. Mansure, the producers will sell to the nonintegrated fabricators more than 90 million pounds of primary aluminum during the forthcoming quarter of 1953, approximately 18 million pounds above the minimum required under the two-thirds rule.

The only companies now producing primary aluminum under supply contracts with GSA are the Aluminum Company of America, Reynolds Metals Co., and Kaiser Aluminum & Chemical Corp. Their total production during the third quarter will be approximately 650 million pounds, of which approximately 220 million pounds will come from new facilities.

Estimated output of primary aluminum by the 3 present domestic producers for 1953 will be close to 2 billion pounds, as compared with approximately 1⅓ billion pounds before Korea. And construction under the first and second rounds of expansion is only about 75 percent completed

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GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Release to Monday Morning Papers, October 5, 1953. GSA–229

More than 101 million pounds of primary aluminum will be made available to independent fabricators during the fourth quarter of 1953, Edmund F. Mansure, Administrator of General Services, announced today.

Mr. Mansure said this is 40 percent more than the amount required under existing contracts the Government has with the major aluminum producers.

"Under the contracts," Mr. Mansure said, "a minimum of two-thirds of all aluminum produced by new facilities, less purchases for the national stockpile and set-asides for the Atomic Energy Commission and the Department of Defense must be made available to nonintegrated users. The new facilities are those covered by expansion contracts between the Government and the aluminum industry."

Contracts with the three major producers—Aluminum Company of America, Reynolds Metals Co., and Kaiser Aluminum & Chemical Corp.—require that they offer two-thirds of their new production less United States Government needs, to nonintegrated users of aluminum for a period of 5 years from the date expansion started. For the next 15-year period, 25 percent of expanded production will be offered to nonintegrateds.

The 101 million pounds announced today has already been contracted for.

Total production for the fourth quarter will be about 651 million pounds. Of this amount, approximately 231 million pounds will result from new production.

During the third quarter of 1953, fabricators had available 90 million pounds. Production from new facilities for that period was approximately 220 million pounds, and total production totaled 650 million pounds.

When all plants involved in the present aluminum expansion program are completed, annual production will be well over 3 billion pounds.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Tuesday, February 23, 1954. GSA–255

More than 70 million pounds of primary aluminum made available as a result of production from new facilities will be purchased by independent fabricators during the first quarter of 1954, Edmund F. Mansure, Administrator of General Services, announced today.

Mr. Mansure said this amount was offered by the three major producers to nonintegrated users and is approximately 90 percent more than contracts with GSA require to be offered. (Nonintegrateds use but do not produce the metal.)

Total estimated aluminum production for the quarter will be 693,200,000 pounds, Mr. Mansure said. Of this amount, 260,887,000 pounds will come from new facilities.

The amount which must be offered to nonintegrated users is two-thirds of the new production, less (1) a proportionate share of set-asides for the Atomic Energy Commission and Department of Defense and (2) the requirements of the national stockpile from new aluminum facilities.

In the last quarter of 1953 users bought 101 million pounds made available as a result of new production. Total production for that period was 651 million pounds and 231 million pounds came from new facilities.

GSA has this type of contract with Aluminum Company of America, Reynolds Metals Co., and the Kaiser Aluminum & Chemical Corp.

Under the contracts, for the first 5 years from the time expansion of facilities started, the companies agree to offer the two-thirds percentage presently in effect, and for the following 15 years they will offer 25 percent of expanded production under the same rules.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Friday, June 4, 1954. GSA–273

Production of aluminum from new facilities created under the Government's expansion program will reach 403,407,600 pounds during the second quarter of 1954, Edmund F. Mansure, Administrator of General Services, said today.

Mr. Mansure also announced that nearly 80 million pounds will be supplied to nonintegrated users (who fabricate but do not produce the metal).

Under GSA contracts with three primary producers, a percentage of new production must be offered to nonintegrated users.

"This contractual requirement has again been met by the companies," Mr. Mansure said, "insuring a fair distribution of available metal to nonintegrateds.

"We think the program is working out very successfully. There have been no instances in the last 6 months in which nonintegrated users have advised us that metal was not available."

The contract formula applied in the program calls for offering nonintegrateds two-thirds of new production after a proportionate share of set-asides for the AEC and Department of Defense, and requirements of the national stockiple from new aluminum facilities.

This formula applies for 5 years from the time expansion started. For the following 15 years, the producers will offer 25 percent of expanded production, instead of two-thirds.

Companies producing in the program are the Aluminum Company of America, Reynolds Metals Co. and the Kaiser Aluminum & Chemical Corp.

Total production from new facilities for the first quarter of 1954 was 260,887,000 pounds. For the last quarter of 1953 it was 231 million pounds.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Friday, September 10, 1954. GSA–291

The General Services Administration announced today that aluminum production from new facilities created under the expansion program will reach 301,485,000 pounds during the third quarter of 1954.

A minimum of 63,345,000 pounds of aluminum is required to be made available to nonintegrated users (who fabricate but do not produce the metal). During the second quarter of 1954, 80 million pounds were made available to the nonintegrateds.

GSA said that there have been no instances in the last 9 months in which nonintegrated users have advised that they were unable to obtain metal. GSA also said it had been advised by the producers that considerably greater quantities of aluminum are available to the nonintegrateds than the amount required to be set aside.

Total production of aluminum during the second quarter of this year was 303,407,000 pounds. During the first quarter it was 260,887,000 pounds.

GENERAL SERVICES ADMINISTRATION

OFFICE OF PUBLIC INFORMATION AND REPORTS

For Immediate Release, Tuesday, October 12, 1954. GSA–297

General Services Administration announced today an agreement to lease an aluminum forgings plant at Erie, Pa., to Kaiser Aluminum & Chemical Corp.

Under the agreement, the corporation has become the operator of the Government-owned plant. The lease will run for 5 years with renewal options by which the new operator may extend the term for 15 more years.

The new agreement, based upon the solicitation of competitive bids, replaces a lease by which the plant has been operated since 1951 by Willys Motors, Inc. The installation, equipped also to produce magnesium forgings, has been turning out aluminum forgings for aircraft and ordnance. The new operator has indicated that it will continue to produce for the same uses and has acquired the inventory and work in process of its predecessor.

The forgings plant is 1 of 18 installations in the National Industrial Reserve which GSA maintains to support defense industries in a national emergency. The lease agreement provides for operation under the national security clause by which production for defense uses may be required by the Government.

In operation as a defense plant in World War II, the installation represents an investment by Government of $8,500,000. Removed from production in 1945, it was restored to operation in 1951 and has been in production ever since. Under the agreement, the rental will be based on a percentage of gross sales with a fixed minimum.

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